



# ICM

MARCH 2017

ECONOMICS FOR BUSINESS

**Instructions to candidates:**

- a) Time allowed: Three hours (plus an extra ten minutes' reading time at the start – do not write anything during this time)
  - b) Answer any FIVE questions
  - c) All questions carry equal marks. Marks for each question are shown in [ ]
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- 1. Compare and contrast the price mechanism (free market economy) and the command economy as means of dealing with the economic problem of resource allocation. [20]
  
  - 2.
    - a) Outline the main factors, other than price, which affect the market demand for a product. [10]
    - b) Explain what is meant by EACH of the following terms, indicating how EACH is measured:
      - i Price elasticity of demand [5]
      - ii Price elasticity of supply [5]
  
  - 3.
    - a) Indicate, using the appropriate graph, the profit maximising position of a monopolist earning supernormal profit. [10]
    - b) Discuss the major barriers to entry which can help create monopoly power. [10]
  
  - 4.
    - a) Explain briefly what is meant by **market failure**. [8]
    - b) Identify and discuss THREE causes of market failure. [12]
  
  - 5.
    - a) Using an appropriate diagram, discuss the FOUR phases of the business cycle. [12]
    - b) Outline the main causes of business cycles in a developed economy. [8]
  
  - 6.
    - a) Outline the reasons why unemployment may be considered as an economic problem by the government of a country. [8]
    - b) Evaluate the principal causes of unemployment. [12]
  
  - 7. Define the term '**supply side economics**' and discuss the main supply side measures used in a developed economy to restore the influence of market forces. [20]
  
  - 8.
    - a) Describe the main elements in the current account of the balance of payments. [12]
    - b) Outline the consequences for a country's economy of a persistent current account deficit on the balance of payments. [8]