



ICM

SEPTEMBER 2016

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. a) Define the term **internal economies of scale**. [6]
b) Distinguish between internal economies and internal diseconomies of scale, giving examples of EACH. [14]
 - 2. a) Explain, with the aid of a diagram, how the price mechanism brings supply and demand into equilibrium. [10]
b) Outline, using a diagram, the outcome of imposing a maximum price below the level of equilibrium. [10]
 - 3. a) Describe the essential requirements for the existence of a perfectly competitive firm. [10]
b) Show diagrammatically and explain the equilibrium position of a perfectly competitive firm in the long period. [10]
 - 4. a) Explain briefly what you understand by the term **market failure**. [8]
b) Select and discuss THREE causes of market failure. [12]
 - 5. a) Define and explain the injections into and withdrawals from the circular flow of income. [12]
b) Discuss the effect on economic activity if there is a fall in private sector investment. [8]
 - 6. a) Outline the principal instruments of monetary policy. [10]
b) Discuss what is meant by **expansionary monetary policy** and outline under what economic circumstances the government of a country might use it. [10]
 - 7. a) Outline the principle of comparative advantage as it applies in international trade. [8]
b) Discuss reasons why a government might use protectionist measures such as tariffs and quotas. [12]
 - 8. a) Describe the main element 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. [8]