Micro Short Questions: *Answer ALL Questions in this section.*

1. The prices of foreign holidays often double during certain times of the year, such as school holidays.
2. Describe what tends to happen to the demand for foreign holidays during school holidays and suggest why this is the case. (200 words max)

Ans) There are a lot of reasons for the increase in demand during this time of the year, namely-

Tourism Marketing

Fixed Holidays for Students

Family Availability

And Weather Conditions

A combination of one or more of the above factors along with the focused marketing that the tourism agencies do during this time drives up the demand for travel during the summer vacations. Another reason for the price increase is also because most schools and universities decide to give summer vacations around the same time period, which increases a family’s ability to be able to travel during the specific time.

1. Describe two factors that may influence the price elasticity of supply for foreign holidays. (400 words max)

Ans) The two factors that may influence the price elasticity for foreign holidays can be a form of capacity constraints –

Accommodation Constraints – Due to the high influx of passengers and tourists travelling during this season, it could result in lowering the elasticity of supply in this travel destination due to the inability to increase the number of accommodations available in hotels and/or resorts in these destinations. If these facilities are at or near full capacity, this could potentially lower the supply elasticity leading due to the inability to increase supply for the same.

Transportation Constraints – For the same reason as above, the transportation structure in any travel destination may fail to accommodate for the sudden increase of tourists and people coming into the country. And if this failure to accommodate isn’t resolved, this could add to the decrease in supply elasticity for the same reasons mentioned in the previous point.

1. On a diagram, illustrate the role played by demand and supply in creating higher holiday prices during school holidays, and explain what you have drawn. (300 words max)

1. Identify which key concept from economics can help holiday companies determine the extent to which customers will be willing to pay higher prices during school holidays and define this concept within the given context. (300 words max)

For holiday companies, the economic concept to better determine this situation would be the Price Elasticity of Demand, PED determines the responsiveness of demand for a certain good or service by change in price.

PED can be broken down into two categories-

Elastic Demand- Elastic Demand occurs when a small change in price leads to a drastic increase or decrease in the quantity demanded for a certain good.

Inelastic Demand- Whereas Inelastic Demand occurs when a change in price does not cause such large movements in the quantity demanded for a certain good or service. It usually requires higher changes in price to change the demand in quantity for a good or service.

By analysing the PED, holiday companies can make informed decisions about pricing strategies during school holidays. If the demand is inelastic , companies can increase prices without significantly reducing the number of bookings. However, if the demand is elastic, they may need to consider competitive pricing or promotional offers to attract customers.

**[Total 10 marks]**

1. The table below shows the total monthly costs incurred by a firm at different levels of output.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Output | 0 | 100 | 200 | 300 | 400 | 500 | 600 | 700 |
| TC | 7200 | 7950 | 8400 | 8600 | 8800 | 9250 | 12250 | 16000 |

* 1. What are the firm’s fixed costs per month? Explain how you could identify the firm’s fixed costs. (200 words max) [2 marks]
  2. For each of the output levels, calculate the firm’s average variable costs (AVC), average (total) cost (AC) and the marginal cost (MC). Add your answers to the table below.

[4 marks]

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Output | 0 | | 100 | | 200 | | 300 | | 400 | | 500 | | 600 | | 700 | |
| MC |  |  | |  | |  | |  | |  | |  | |  | |  |
| AC | - | |  | |  | |  | |  | |  | |  | |  | |
| AVC | - | |  | |  | |  | |  | |  | |  | |  | |

* 1. Identify and explain three factors that determine the shape and/or position of a firm’s marginal cost (MC) curve. (500 words max)

[4 marks]

**[Total 10 marks]**

Macro Short Questions: Answer ALL Questions in this Section

1. a) Identify and explain the 3 functions of money. (300 words max) [3 marks]
   * 1. How does hyperinflation erode the functions of money? Your answer should refer to a time in history when this happened. (400 words max) [3 marks]
     2. The country of Monlandia has a perfectly inelastic supply curve for money at 1000 Monies. The central bank prints 1000 more Monies. What will happen to supply and demand for money and what will happen to inflation, everything else equal? (400 words max) [4 marks]

**[Total 10 marks]**

1. a) The country of Scotlandia is closed to all trade and has no government. Households save ½ of all of their income of 5000. Given that Scotlandia is in equilibrium, what will the level of aggregate investment be? [2 marks]
2. Suppose that businesses are very confident about the economic future of Scotlandia and decide to increase investment by 500. Describe what will happen to aggregate expenditure in the short and long-run in Scotlandia, using a circular flow of income diagram. (400 words max) [4 marks]
3. What is the value of the multiplier in this economy? [2 marks]
4. Scotlandia decides to form a government that runs a balanced budget, i.e., T = G, or in words, taxation = government expenditure. Show how the circular flow of income diagram changes. How does aggregate expenditure change? (300 words max) [2 marks]

**[Total 10 marks]**

Essay questions

*Choose ONE essay from Micro and ONE essay from Macro*

Micro

*Choose one essay from 1) or 2)*

(600 words max, excluding citations) [15 marks]

1) Which type of market structure do firms in the fast food sector operate under? Describe the characteristics of this type of market structure, explain how these characteristics apply to a fast food chain of your choice and discuss whether customers benefit from this type of market structure.

2) Can the free market (without government intervention) protect the environmental commons in the presence of negative externalities? Discuss.

Macro

*Choose one essay from 3) or 4)*

(600 words max, excluding citations) [15 marks]

* ~~Explain the concept of “Crowding Out” in the context of government spending and borrowing. What did Reinhart and Rogoff argue about crowding out, and why were they wrong?~~
* Discuss the causes of the 2008 financial crisis? Why can the government policy response of quantitive easing be described as ‘open market operations’?

The 2008 Financial crisis happened due to a lot of factors, as stated in Volume 9 of the Journal of Corporate Law Studies – “In the US, this failure seems attributable in large measure to two under-recognized causes: (a) excessive reliance on a gatekeeper—the credit rating agency—which became increasingly subject to client pressure as competition increased in its market; and (b) a shift toward more self-regulatory rules that permitted US investment banks to increase leverage and reduce diversification under the pressure of competition” Coffee, J. C. (2009).

* The Role of Credit Rating Agencies:

Prior to the 2000s, credit rating agencies (CRAs) like Moody's, Standard & Poor's and Fitch Ratings played a vital role in assessing public companies for the use of bank loans or security issuances, tougher competition which had put pressure on pricing for clients. The credit rating market environment subsequently became more competitive and hence CRAs were forced to comply with the demands from issuers, or risk their clients going elsewhere (White, L.J. (2010).

* Self-Regulatory Environment:

Before the crisis, a very large part of financial activities in particular those taking place in US were not regulated at all. The control of investment was deregulated, so the banks regulated themselves (badly) and started speculating ever-riskier types.

* Increased Leverage:

Investment banks took on a lot of debt to do deals, largely without the prying eyes of regulators. Risks to the financial stability of these institutions were not only due to their high leverage, but also that small declines in asset values could ultimately lead them (the banks) into bankruptcy (Greenlaw et al., 2008).

By focusing on these two causes, we can see how the excessive reliance on credit rating agencies and the shift towards self-regulation, which allowed for increased leverage and reduced diversification, played critical roles in the 2008 financial crisis. The combination of inflated ratings and risky financial practices created a fragile financial system that ultimately led to a severe global economic downturn when the underlying risks materialized.

To summarize, Prior to the 2000s, credit rating agencies (CRAs) like Moody's, Standard & Poor's, and Fitch Ratings played a vital role in assessing companies for loans or securities (White, 2010). Increased competition forced CRAs to comply with issuers' demands, leading to inflated ratings and misrepresented risks (Partnoy, 2009; Frenkel and Rudolf, 2010). Before the crisis, many financial activities, especially in the US, were deregulated, allowing banks to engage in riskier practices without adequate oversight (Crotty, 2009; Blundell-Wignall, Atkinson and Lee, 2008). Investment banks took on high leverage, increasing financial instability (Adrian and Shin, 2010; Greenlaw et al., 2008).

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