



SIR ARTHUR LEWIS COMMUNITY COLLEGE

DIVISION OF AGRICULTURE

GENERAL AGRICULTURE - ASSOCIATE DEGREE YR1

ACADEMIC YEAR 2013/2014

END OF SEMESTER TWO EXAMINATION



#E15

COURSE: ECO101 – FUNDAMENTALS OF ECONOMICS

DATE: 13<sup>th</sup> May 2014

TIME: 9:00 a.m.

DURATION: 2 ½ hrs.

### SECTION A

**INSTRUCTIONS: Determine whether the statements are TRUE or FALSE. Give an explanation for your response.**

1. Economic growth always results in improvements in living standards for all citizens.
2. Banks engage in money transmission services.
3. Taxes and government spending are examples of monetary policies.
4. This production function  $Y = (X_1/ X_2, X_3)$  is a short run production function.
5. Revenue is a function of output.
6. If the income elasticity co-efficient of steak is 0.98, then steak is an inferior good.
7. A  $MRS_{XY} = 1$  means that the opportunity cost of good X is one unit of good Y.
8. A change in the price of a good causes a shift of the demand curve.
9. Macroeconomic policies are used to grow the economy.
10. Diminishing marginal returns can happen in the long run.
11. Decreasing marginal returns are link to marginal cost.
12. Market equilibrium results in excess demand.
13. The central bank accepts deposits from the public.
14. If demand is inelastic a rise in price will lead to increased revenue to the firm.
15. Taxes on variable inputs will increase the fixed cost.

### SECTION B

**INSTRUCTIONS: Do question 1 and any other TWO questions.**

1. Assume that the Product X is sold in a perfectly competitive market. The market demand and supply curves for Product X are given as  $Q^d = 100 - 6P$  and  $Q^s = 10P - 60$ , respectively.
  - (a) Sketch the market demand curve for Product X. 3 mks
  - (b) List two factors that can cause the demand curve to shift to the right. 2mks.
  - (c) Calculate (i) equilibrium price (ii) equilibrium quantity 5 mks
  - (d) At what price will output be zero? 3mks

- (e) Suppose that the production function for Product X is given as  $Y = (\alpha_1/\alpha_2, \alpha_3)$ , where Y is output and the  $\alpha_1, \alpha_2, \alpha_3$  are inputs.
- (i) What type of production function is represented above? 2mks
  - (ii) Classify the inputs in the production function. 3 mks
  - (iii) As Y increases what do you expect to happen to  $\alpha_1$ ? Why? 3 mks
  - (iv) The government removes the subsidy on inputs, show on a diagram, the impact of that policy on supply. 5mks
  - (v) The government imposes a VAT on product W, which is a complement of product X, use a diagram to show the effect of this policy on the consumption of product X, 4 mks
2. (a) Define the term "gross domestic product" 2mks
- (b) State the three methods of measuring national income 6mks
- (c) Suppose that consumption expenditures are \$30 million, gross private investment is \$15 million, , and government purchases \$ 20 million. If GDP is \$70 million, what is the value of net exports?  
6 mks
- (d) Define the term fiscal policy 2 mks
- (e) Give Two examples of fiscal policy 2 mks
- (f) Define the term "economic development." 2 mks
3. A nation's economy goes through periods of fluctuating business activity.
- (a) Define the term "economy." 2 mks
  - (b) List TWO feature of:
    - (i) Recession (ii) Recovery. 4 mks
  - (c) Use a properly labelled diagram to illustrate the four phases of a business cycle. 7 mks
  - (d) (i) Define the term " Inflation"  
(ii) How can inflation harm workers 4 mks
  - (e) Explain how improvements in workers' skills or education can be a source of economic growth. 3 mks.
4. Agriculture impacts and is impacted by St. Lucian economy.
- (a) Define the term "Agricultural-sector." 2 mks
  - (b) List four features of the agricultural sector in St. Lucia 4mks
  - (c) State two contributions that the agri-sector makes to national development. 4mks
  - (d) State TWO reasons for government involvement in agriculture. 4 mks
  - (e) List TWO factors that constrain the growth of the agricultural sector. 2 mks
  - (f) Show how you would address ONE of the constrains identified above. 2mks
  - (g) Comment on the statement "St. Lucian farmers are not competitive." 2mks

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