PRIFYSGOL ABERYSTWYTH UNIVERSITY

SEMESTER ONE 2026

DEPARTMENT NAME: ABERYSTWYTH BUISNESS SCHOOL

AB13120: UNDERSTANDING THE ECONOMY

Time allowed: **2 HOURS.**

Answer **3** questions only, **2** from section A and **1** from Section B

CALCULATORS ARE NOT PERMITTED

STUDENTS MAY SUBMIT ANSWERS TO THIS PAPER IN EITHER WELSH OR ENGLISH

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Once seated, students may complete the front cover of the answer book(s) and the attendance slip ONLY.

DO NOT TURN THE EXAMINATION QUESTION PAPER OVER UNTIL INSTRUCTED TO DO SO.

Section A

1)

Assume that the equations for demand and supply of a particular good are:

$$Q_D = 120 - 2P \text{ and } Q_S = 20 + 3P$$

Calculate the equilibrium price and quantity.

If the Price is set at £15, calculate the shortage or surplus. Show your working.

(25 marks)

2)

An economy produces two goods, X and Y. If it devotes all resources to X, it can produce 200 units; if it devotes all resources to Y, it can produce 100 units.
Assume a straight-line PPF and competitive markets.

Draw the PPF curve, outline and explain the opportunity cost to produce more of Good X.

(25 marks)

3)

Discuss the main causes of unemployment in an economy, distinguishing between cyclical, structural, frictional, and seasonal unemployment. Suggest a method, the government could use to reduce unemployment, explaining how it would address these causes.

(25 marks)

4)

Economics is based on the principles of scarcity, choice, and opportunity cost.

Using clear definitions of each concept. Explain how these concepts apply to business owners when deciding how to allocate limited resources. Support your answer with practical examples.

(25 marks)

Section B

5)

Critically examine how behavioural economics challenges the assumptions of traditional economic theory regarding rational decision-making.
In your answer, discuss key behavioural concepts such as heuristics, biases, prospect theory, and nudging, and evaluate their application in the real-world.

(50 Marks)

6)

Assume that the equations for demand and supply of a particular good are:

$$Q_D = 100 - 2P \text{ and } Q_S = 10 + 3P$$

a) Find the initial equilibrium price and quantity. (5 marks)
b) The government imposes a specific tax of £5 per unit, shifting the supply curve. Write the new supply equation. (10 marks)
c) Calculate the new equilibrium price and quantity. (5 marks)
d) On a clearly labelled line graph, draw the original and new supply curves along with the demand curve. (20 marks)
e) Indicate the tax wedge, consumer price, producer price, and quantity traded. (10 marks)

(50 marks)

7)

Using a labelled diagram of the business cycle, explain the different stages of the economic cycle (expansion, peak, contraction, and trough).
Discuss the key macroeconomic indicators that change during each stage and evaluate how government policy might respond to these changes.

(50 marks)

END OF PAPER