PRIFYSGOL ABERYSTWYTH UNIVERSITY

SEMESTER TWO 2026

ABERYSTYWTH BUSINESS SCHOOL

AB13220: ECONOMIC THEORY AND POLICY

Time allowed: **TWO HOURS**

Answer THREE questions only.

This paper contributes to 60% of the overall module mark.

There are SIX questions you can choose from.
Answer THREE of these.
All questions have (a) and (b) parts, answer both parts of the question fully.
All questions are of equal weighting.
The paper is out of 100 marks total.

CALCULATORS ARE PERMITTED (Casio FX83 or FX85 models only)

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

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.

1. Market structures and price determination

Answer BOTH (a) AND (b)

a. Using diagrams, explain how a perfectly competitive firm determines its profit-maximising level of output in the short run.

[50%]

b. Compare price and output outcomes under monopoly and monopolistic competition, referring to allocative and productive efficiency.

[50%]

2. Income inequality and redistribution

Answer BOTH (a) AND (b)

a. Identify and explain three major sources of income inequality within an economy.

[50%]

b. Evaluate a government policy aimed at redistributing income, discussing the potential benefits and drawbacks.

[50%]

3. Market failure and government intervention

Answer BOTH (a) AND (b)

a. Explain what is meant by 1) negative externalities and 2) public goods, using diagrams where appropriate.

[50%]

b. Assess the case for government intervention in correcting market failure, referring to efficiency and welfare considerations.

[50%]

Please turn over for other questions.

4. Monetary System and Stabilisation Policy.

   Answer BOTH (a) AND (b)

   a. Explain how the banking system creates money and describe the role of a central bank in controlling the money supply.

   [50%]

   b. Analyse how fiscal and monetary policy can be used to influence output, unemployment, and inflation.

   [50%]

5. Economic Growth

   Answer BOTH (a) AND (b)

   a. Explain the roles of capital accumulation, human capital, and technological progress in the long-run economic growth.

   [50%]

   b. Discuss two policies that governments might adopt to raise an economy's long-run growth rate.

   [50%]

6. International trade and exchange rates

   Answer BOTH (a) and (b)

   a. Using the theory of comparative advantage, explain why countries gain from international trade.

   [50%]

   b. Compare fixed and floating exchange rate regimes, outlining their main advantages and disadvantages.

   [50%]

END OF PAPER