

Cork Institute of Technology

Bachelor of Science in Construction Economics – Award

Bachelor of Science in Construction Management - Award

(CCECO_7_Y3)(CMNGT_7_Y3)

Autumn 2008

Development Economics

(Time: 3 Hours)

Instructions

Answer FOUR questions.

All questions carry equal marks.

Examiners: Mr. D. Coveney

Mr. J. Hanahoe

Mr. S. Brady

Mr. P. Quinn

Mr. J. O'Rourke

- Q1. From the following information for 'Fire Doors Limited' for the year ended 30th June 2008.

| | €000 |
|----------------------|------|
| Fixed Costs | 250 |
| Variable Costs | 450 |
| Sales (50,000 Units) | 800 |

You are required to calculate:

- (a) The Break-Even point in value and unit terms (7 marks)
- (b) The margin of safety in value and unit terms (7 marks)
- (c) Prepare a Break-Even Chart (11 marks)

- Q2. (a) Explain:
- (i) the marginal propensity to consume (4 marks)
 - (ii) the marginal propensity to save (4 marks)
 - (iii) the Multiplier effect (4 marks)

Illustrate your answer.

- (b) In the initial equilibrium level of income in the economy, there was €4,000 billion, demand for consumer goods was €3,200 billion. To produce these consumer goods a stock of buildings of 128,000 units is required and 5% of the stock of buildings needs to be replaced each year. The equilibrium level will increase as the income level in the economy increases. (13 marks)

| <i>Year</i> | <i>Income</i> | <i>Consumer demand</i> | <i>Stock of industrial buildings</i> | <i>New buildings required including replacements</i> |
|-------------|---------------|------------------------|--------------------------------------|--|
| 1 | 4000 | 32000 | 128000 | 6400 |
| 2 | 4000 | | | |
| 3 | 5000 | | | |
| 4 | 5000 | | | |
| 5 | 5500 | | | |
| 6 | 5500 | | | |
| 7 | 6000 | | | |
| 8 | 6000 | | | |

- Q3. Discuss why the “Orthodox Model of Price Determination” does not work in the construction industry in practice in a mixed economy.

- Q4. (a) Economic and Monetary Union has removed the built-in economic warning signs. Discuss. (15 marks)

- (b) Discuss how F X Forward could help business and investors avoid the worst effects of the currency exchange rate movements in both Sterling and the US Dollar. (10 marks)

- Q5. (a) Discuss the Wage-Price spiral, illustrate your answer by diagram. (12 marks)

- (b) Discuss the 'Time-LAG' and how this affects construction firms and the construction industry. (13 marks)

Q6. Discuss

- (i) The fundamental principle of price of an asset is equal to the expected stream of future income from holding the asset decreasing back to the Present Value by multiplying its relevant value in Y.P. in the case of property. (13 marks)
- (ii) Discuss how rising interest rates in the Euro Zone have effected asset values in Ireland and how you consider this will effect our economy going forward. (12 marks)

| | | | | |
|-------------|---------------|------------------------|--------------------------------------|----------------------|
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|-------------|---------------|------------------------|--------------------------------------|----------------------|

| | | | | |
|---|------|-------|--------|--|
| | | | | <i>required including replacements</i> |
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| 7 | 6000 | | | |
| 8 | 6000 | | | |