THE INSTITUTE OF CHARTERED ACCOUNTANTS (GHANA)

NOVEMBER 2011 EXAMINATIONS
(PROFESSIONAL)

PART 1

ECONOMICS
(Paper 1.3)

Attempt five (5) Questions

TIME ALLOWED:
Reading & Planning - 15 Minutes
Workings - 3 Hours

SECTION A (MICROECONOMICS)

NB: Answer only three (3) questions in the section

QUESTION 1

Study the table below which shows a hypothetical long run production function and answer the questions that follow:

Units of Labour	Units of capital	Total Production
1	2	20
2	4	60
4	8	180
8	16	360
16	32	600

(a) Indicate the stages of production in which there are

(i) increasing returns to scale

(ii) constant returns to scale

(iii) decreasing returns to scale

(***4 marks***)

(b) Suppose labour and capital are hired in a perfectly competitive market at GHS100 and GHS500 per unit respectively, calculate

(i) the total cost at each level of output

(ii) the average cost at each level of output

(***10 marks***)

(c) From the calculation in (b) above, what are the implications for the average cost when there is:

(i) increasing returns to scale

(ii) constant returns to scale

(iii) decreasing returns to scale?

(***6 marks***)

(**Total: 20 marks**)

QUESTION 2

The table below shows the utility derived by a consumer from the consumption of oranges.

Oranges	Total Utility	Marginal Utility
1	10	10
2	18	u
3	25	7
4	v	6
5	36	w
6	40	4
7	x	3

(a) Calculate the values of u, v, w and x. (***4 marks***)

(b) State the economic law that can be observed from the trend implied in the column for marginal utility. (***4 marks***)

(c) How can the information in the table be used to explain the scope of the normal demand curve? (***8 marks***)

(d) If the price of an orange is 3 GP, how many oranges will the consumer consume? Explain your answer.
(***4 marks***)

(**Total: 20 marks**)

QUESTION 3

The diagram below shows the output cost and revenue situation of a manufacturing firm in an imperfect market. Study the diagram and answer the questions that follow:

(a) What is the equilibrium output and equilibrium price? Explain your answer.(***5 marks***)

(b) Is the firm in a short run or long run equilibrium? Explain your answer. (***5 marks***)

(c) Why does the MR Curve lie below the AR curve? (***5 marks***)

(d) Determine the unused or unexhausted capacity of the firm. Explain your answer. (***5 marks***)

(**Total: 20 marks**)

QUESTION 4

(a) (i) Define the demand for a commodity.
(ii) State the law of demand (***6 marks***)

(b) Explain:
(i) the substitution effect; and
(ii) the income effect (***10 marks***)

(c) Using the substitution and income effects explain why the normal demand curve is negatively sloped. (***4 marks***)

(**Total: 20 marks**)

SECTION A (MACROECONOMICS)

NB: Answer only two (2) questions in the section

QUESTION 5

(a) Differentiate between money market and capital market. (***6 marks***)

(b) (i) What is a stock exchange? (***2 marks***)

(ii) Explain **four (4)** roles that the stock exchange can play in the development of an economy. (***12 marks***)

(**Total: 20 marks**)

QUESTION 6

(a) Distinguish between the following economic concepts:

(i) A tariff and a quota

(ii) An ad valorem tax and a specific tax

(***8 marks***)

(b) Explain any **four (4)** restrictions on international trade.

(***12 marks***)

(**Total: 20 marks**)

QUESTION 7

An economy is represented by the following set of equations:

$Y = C + I$

$C = 40m + 0.8Y$

where Y is aggregate expenditure
C is consumption expenditure by households
I is investment expenditure by firms
M is millions of Ghana cedis

(a) (i) Identify the type of economy represented in the model. Explain your answer.

(ii) Explain investment expenditure (I) as used in the model.

(***5 marks***)

(b) Using the consumption function, determine the

(i) autonomous consumption

(ii) marginal propensity to consume (MPC)

(iii) multiplier (***7 marks***)

(c) Given that the value of Investment (I) is GHS50m calculate equilibrium

(i) Aggregate expenditure (Y)

(ii) Consumption expenditure (C)

(iii) Aggregate saving (S) (***8 marks***)

(**Total: 20 marks**)