

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ECONOMICS - PAPER 7

ATC(U) EXAMINATIONS

LEVEL 11 MODEL EXAMINATION PAPER

NOVEMBER 2001

INSTRUCTIONS TO CANDIDATES:

1. Time allowed: **3 hours**
2. Attempt **all** questions in Section A and any **four** questions in Section B.
3. Section A has **twenty** compulsory multiple-choice questions, each carrying 1.marks.
4. Section B has **six** questions and only **four** are to be attempted. Each question carries 20 marks.
5. Please read further instructions on the answer booklet.

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SECTION A

Question 1:

- (i) The term consumer sovereignty can be best be described as:
 - (a) A situation where the consumers have a collective bargaining power.
 - (b) Power enjoyed by the consumer to decide on what, how and when to produce.
 - (c) A situation where the producer enjoys the power to produce for the consumer.
 - (d) Power of the producer to produce what he desires.
- (ii) A statutory monopoly is a monopoly which arises:
 - (a) As a result of merger of companies.
 - (b) As a result of long distance between producers.
 - (c) When established by government using a parliament act.
 - (d) Due to high cost of production.
- (iii) Excess capacity is a situation where a firm is producing:
 - (a) At less than the installed capacity or optimum capacity.
 - (b) At more than the installed capacity or optimum.
 - (c) More than the quantity demanded.
 - (d) Less than the quantity demanded.
- (iv) The following are tools of a monetary policy except:
 - (a) Reserve ratio.
 - (b) Open market operation.
 - (c) Commercial policy.
 - (d) Currency reform.

- (v) Papa is a farmer who works very hard during March and April. He is unemployed during December and January because it is dry. This type of unemployment is known as:-
- (a) Agricultural unemployment.
 - (b) Seasonal unemployment.
 - (c) Casual unemployment.
 - (d) Frictional unemployment.
- (vi) Which of the following is not a form of income tax?
- (a) Wealth tax.
 - (b) Surtax.
 - (c) Value Added Tax.
 - (d) PAYE.
- (vii) Income elasticity of demand refers to:
- (a) Increase in income of the consumer.
 - (b) The relationship between price changes and quantity changes.
 - (c) The relationship between changes in income and changes in demand.
 - (d) Trade union demands.

Use the following information to answer questions (viii) and (ix)

Given that savings increase from 200 to 300 when income has increased from 1000/= to 1,500/=: calculate:

- (viii) Marginal propensity to save.
- (a) 0.2
 - (b) 0.8
 - (c) -0.2
 - (d) -0.8

- (ix) Marginal propensity to consume:
- (a) 0.8
 - (b) -0.2
 - (c) -0.8
 - (d) 0.2
- (x) The difference between the value of the loan and the security mortgaged to the bank is called:-
- (a) Margin requirement.
 - (b) Reserve requirement.
 - (c) Mortgage ratio.
 - (d) Loan requirement.
- (xi) The following are functions of money except:-
- (a) Standard of value.
 - (b) Standard of deferred payments.
 - (c) Store of wealth or value.
 - (d) Precautionary motive.

Use the following table to answer questions (xii), (xiii) and (xiv)

<i>OUTPUT (kgs)</i>	<i>PRICES (shs)</i>	<i>TOTAL COST</i>
40	22	700
45	21	860
50	20	920

- (xii) Calculate the total revenue when output is 50kgs.
- (a) 1,000.
 - (b) 940.
 - (c) 920.
 - (d) 1,840.

- (xiii) Calculate the average cost when output is 45kgs.
- (a) 40.9.
 - (b) 19.11.
 - (c) 160.
 - (d) 60.
- (xiv) What is marginal revenue when output is 45.
- (a) 21.5.
 - (b) 65.
 - (c) 13.
 - (d) 945.
- (xv) Stagflation can be defined as:-
- (a) A situation where inflation is stagnant.
 - (b) A situation where there is inflation and unemployment at the same time.
 - (c) Another name for hyperinflation.
 - (d) Deflation.
- (xvi) A type of technology which is suitable for a particular economy basing on the socio-economic status of the country is called:-
- (a) Intermediate technology.
 - (b) Appropriate technology.
 - (c) Labour intensive technology.
 - (d) Home technology.
- (xvii) Deficit budget refers to a budget where the:-
- (a) Government revenue is less than government expenditure.
 - (b) Government anticipated expenditure is less than the anticipated government revenue.
 - (c) Anticipated government revenue is less than the anticipated government expenditure.
 - (d) Government revenue is more than government expenditure.

- (xviii) A deliberate government act to reduce the value of its currency against other currencies under a fixed exchange rate system is called currency:-
- (a) Devaluation.
 - (b) Depreciation.
 - (c) Appreciation.
 - (d) Valuation.
- (xix) Supposing the price index of exports is \$4,000 and the price index of imports is \$2,000. Calculate the income terms of trade if the quantity of export is 20 kgs.
- (a) 40.
 - (b) 2.
 - (c) 80,000.
 - (d) 40,000.
- (xx) The per capita income of country Z is \$400, the total population is 100 million people. Compute the national income of country Z in shillings if the exchange rate is 2 shillings per dollar.
- (a) 8,000,000 shillings.
 - (b) 80,000,000,000 shillings.
 - (c) 80,000 shillings.
 - (d) 80,000,000 shillings.

SECTION B

Question 2:

- (a) Define the following
 - (i) Labour intensive technology **(2 marks)**
 - (ii) Labour supply **(2 marks)**
 - (iii) Labour force **(2 marks)**
 - (b) seven factors that influence labour supply **(14 marks)**
- (Total 20 marks)**

Question 3:

- (a) Explain five advantages of international trade to your country. **(10 marks)**
- (b) What type of restrictions can a country use to control international trade? **(10 marks)**

Question 4:

- (a) Distinguish, with examples in each case, between economies of scale and diseconomies of scale. **(10 marks)**
 - (b) Account for the existence of small-scale firms along side large-scale firms. **(10 marks)**
- (Total 20 marks)**

Question 5:

- (a) What are the functions of a Central Bank in a country? **(10 marks)**
 - (b) Give three objectives and four instruments of monetary policy. **(10 marks)**
- (Total 20 marks)**

Question 6:

- (a) Differentiate income elasticity of demand and cross elasticity of demand. **(4 marks)**
 - (b) Explain five determinants of elasticity of demand. **(10 marks)**
 - (c) Give two areas where the concept of elasticity has a practical application. **(6 marks)**
- (Total 20 marks)**

Question 7:

- (a) Why do developing countries receive foreign aid? **(10 marks)**
 - (b) What are the problems associated with such aid? **(10 marks)**
- (Total 20 marks)**