

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

ECONOMICS – PAPER 7

FRIDAY, 2 DECEMBER 2011

INSTRUCTIONS TO CANDIDATES:

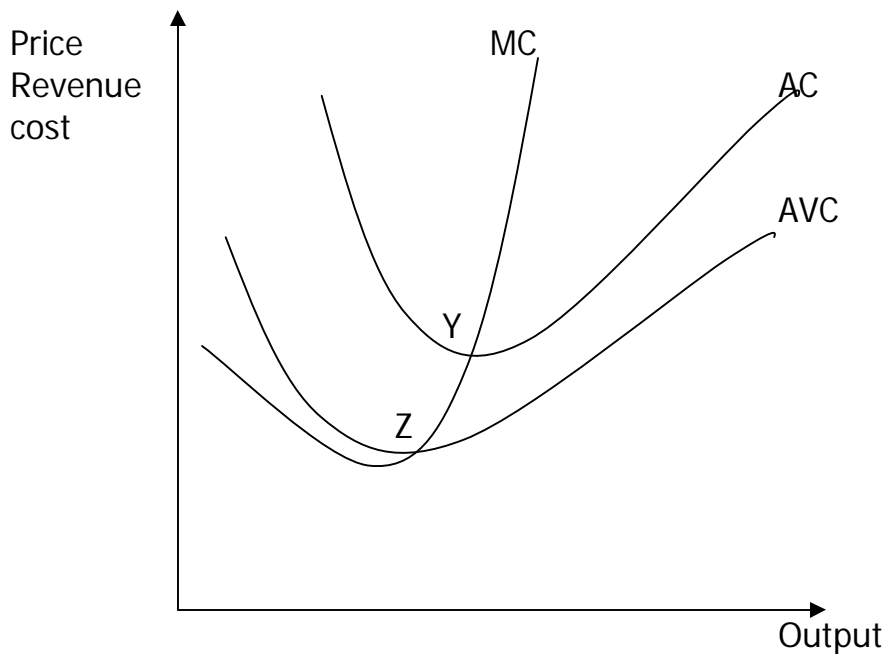
1. Time allowed: **3 hours 15 minutes**.
The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.
2. Attempt **all** questions in Section **A** and any **four** questions from Section **B**.
3. Section **A** has twenty compulsory multiple-choice questions each carrying 1 mark.
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 book.

SECTION A

Question 1

- (i) The economic problem common to all societies is how to:
- (a) achieve full employment.
 - (b) stabilise prices.
 - (c) allocate scarce resources.
 - (d) achieve high rates of economic growth.
- (ii) Consumer sovereignty means the power possessed by the:
- (a) consumer to satisfy all his needs.
 - (b) consumer to influence what should be produced.
 - (c) producer to produce what he wants.
 - (d) producer to determine the price of his goods.

Use the diagram below to answer questions (iii) and (iv)



Where MC = marginal cost,
 AC = average cost,
 AVC = average variable cost.

- (iii) The point marked Y shows the point.
- (a) shut-down
 - (b) optimum
 - (c) equilibrium
 - (d) break-even

- (iv) The point marked Z shows the point.
- (a) shut-down
 - (b) break-even
 - (c) optimum
 - (d) equilibrium
- (v) A deflationary gap in an economy can be closed by:
- (a) increasing the direct taxes.
 - (b) reducing the direct taxes.
 - (c) stabilising the direct taxes.
 - (d) restructuring the taxation system.
- (vi) Marginal propensity to consume is represented by:
- (a) consumption/ income (C/Y).
 - (b) income/ consumption (Y/C).
 - (c) change in consumption/ change in income ($\Delta C/\Delta Y$).
 - (d) change in income/ change in consumption ($\Delta Y/\Delta C$).
- (vii) Which of the following is **NOT** a quality of good money?
- (a) Profitability.
 - (b) Durability.
 - (c) Divisibility.
 - (d) Malleability.
- (viii) Another name for hyper-inflation is:
- (a) creeping inflation.
 - (b) structural inflation.
 - (c) demand-pull inflation.
 - (d) galloping inflation.
- (ix) Which of the following equations explains the quantity theory of money?
- (a) $TV = M/P$
 - (b) $MP = VT$
 - (c) $MT = PV$
 - (d) $MV = PT$

Where; T = number of transactions,
 V = velocity of money (rate at which money changes hands),
 M = total amount of money in circulation,
 P = general price level.

- (x) _____unemployment is caused by the general low level of aggregate demand.
- (a) Residual.
 - (b) Cyclical.
 - (c) Structural.
 - (d) Seasonal.
- (xi) The rate at which one country's products are exchanged for those of another is referred to as:
- (a) terms of trade.
 - (b) balance of trade.
 - (c) balance of payments.
 - (d) exchange rate.
- (xii) Frictional unemployment is mainly caused by:
- (a) introduction of modern techniques of production.
 - (b) physical and mental disabilities.
 - (c) ignorance about existing job opportunities.
 - (d) exhaustion of raw materials.
- (xiii) Economic growth is:
- (a) a quantitative increase in output.
 - (b) a qualitative increase in output.
 - (c) both quantitative and qualitative change in output.
 - (d) a positive structural change.
- (xiv) The policy of devaluation will be successful if the demand for:
- (a) imports is price inelastic in the devaluing country.
 - (b) exports of the devaluing country is price inelastic.
 - (c) imports is price elastic in the devaluing country.
 - (d) imports is perfectly inelastic in the devaluing country.
- (xv) Which of the following features is **NOT** a characteristic of a backward economy?
- (a) Low levels of education.
 - (b) High marginal propensity to save.
 - (c) High marginal propensity to consume.
 - (d) Abundance of unskilled workers.

- (xvi) An example of a direct tax is:
- (a) customs duty.
 - (b) poll tax.
 - (c) value added tax.
 - (d) advalorem tax.
- (xvii) A dead-weight debt is one which is:
- (a) not covered by any real asset.
 - (b) incurred to purchase a real asset.
 - (c) free of interest rate.
 - (d) heavily dependent on the state.
- (xviii) The 'big push' theory requires massive investment in industries and:
- (a) financial institutions.
 - (b) infrastructure.
 - (c) agriculture.
 - (d) education.
- (xix) Co-existence of two contrasting systems within a sector is referred to as:
- (a) sectoral dualism.
 - (b) inter-sectoral dualism.
 - (c) regional dualism.
 - (d) intra-sectoral dualism.
- (xx) If the demand for a commodity is perfectly elastic, the incidence of a tax on that commodity will be, other things held constant, entirely on the:
- (a) consumer.
 - (b) producer.
 - (c) government.
 - (d) tax authority.

SECTION B

Question 2

- (a) State the law of supply.
(2 marks)
 - (b) Using illustrations, distinguish between a change in supply and a change in quantity supplied.
(8 marks)
 - (c) Explain **five** factors that affect the quantity supplied of a commodity.
(10 marks)
- (Total 20 marks)**

Question 3

- (a) Give **four** features of perfect competition.
(4 marks)
 - (b) Illustrate how firms under perfect competition determine price and output in the short-run.
(8 marks)
 - (c) Explain **four** advantages of perfect competition.
(8 marks)
- (Total 20 marks)**

Question 4

- (a) Explain **five** functions of a commercial bank.
(10 marks)
 - (b) Explain **five** problems faced by commercial banks in their operations in your country.
(10 marks)
- (Total 20 marks)**

Question 5

- (a) Distinguish between labour force and efficiency of labour.
(2 marks)
 - (b) Outline **Six** determinants of the size of the labour force in your country.
(6 marks)
 - (c) Explain **six** factors that influence the efficiency of labour in your country.
(12 marks)
- (Total 20 marks)**

Question 6

- (a) (i) What is meant by 'regional economic integration'? (2 marks)
- (ii) State the **six** stages of regional economic integration. (6 marks)
- (b) Explain **six** merits of regional economic integration. (12 marks)
- (Total 20 marks)

Question 7

- (a) What is meant by 'economic development planning'? (2 marks)
- (b) Distinguish between a:
- (i) partial plan and a comprehensive plan. (4 marks)
- (ii) centralised plan and a decentralised plan. (4 marks)
- (c) Explain **five** characteristics of a good plan. (10 marks)
- (Total 20 marks)