

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

ECONOMIC ENVIRONMENT – PAPER 2

WEDNESDAY, 14 DECEMBER 2005

INSTRUCTIONS TO CANDIDATES:

1. Time allowed: **3 hours**
2. Attempt **all** questions in Section A and any **four** questions from Section B.
3. Section **A** has twenty compulsory questions each carrying 2 marks.
4. Section **B** has **six** questions and only **four** are to be attempted. Each question carries 15 marks.
5. Please, read further instructions on the answer book.

SECTION A

Question 1

- (i) Consumer sovereignty is when the:
 - (a) consumer determines what to produce.
 - (b) consumer determines what to buy.
 - (c) consumer determines what to consume.
 - (d) producer determines what to sell.
- (ii) If the price of cooking gas rises considerably, what would be the likely effect on the market of electricity?
 - (a) Demand would increase and price would rise.
 - (b) Demand would fall and price would fall.
 - (c) Supply would decrease and price would rise.
 - (d) Supply would increase and price would fall.
- (iii) A market structure with many sellers of differentiated products is under:
 - (a) perfect competition.
 - (b) monopolistic competition
 - (c) perfect oligopoly.
 - (d) imperfect oligopoly.
- (iv) A fall in price of a commodity by 40%, increases demand for that commodity by 15%. The price elasticity of demand for the commodity is said to be:
 - (a) unfairly elastic.
 - (b) elastic.
 - (c) inelastic.
 - (d) fairly elastic.
- (v) For effective operation of price discrimination,
 - (a) the government should interfere.
 - (b) the good should have close substitutes.
 - (c) there should be perfect knowledge.
 - (d) the producer should be a monopolist.
- (vi) In which of the following situations would the level of national income remain unchanged? When:
 - (a) expenditure is greater than income.
 - (b) expenditure equals injections.
 - (c) withdrawals exceed injections
 - (d) withdrawals equal injections.

- (vii) Unemployment, caused by the general law of aggregate demand is:
- (a) Keynesian.
 - (b) Frictional.
 - (c) Structural.
 - (d) Demand pull.
- (viii) Which group would tend to do best during a period of inflation?
- (a) Creditors.
 - (b) Debtors.
 - (c) Money lenders.
 - (d) Tax payers.
- (ix) Minimum price legislation is also known as price:
- (a) ceiling.
 - (b) support.
 - (c) floor.
 - (d) discrimination.
- (x) A trading bloc where there is free trade and a different external tariff against non-members is:
- (a) an economic union.
 - (b) a customs union.
 - (c) a preferential trade area.
 - (d) a free trade area.
- (xi) A managed exchange rate is one:
- (a) fixed at a certain value.
 - (b) that fluctuates between two official margins.
 - (c) determined by demand and supply.
 - (d) under government control.
- (xii) The study of an economy as a single entity is referred to as:
- (a) micro economics.
 - (b) macro economics.
 - (c) positive economies.
 - (d) normative economics.
- (xiii) Implicit costs are:
- (a) fixed costs.
 - (b) variable costs.
 - (c) costs not included in calculation of profits.
 - (d) costs included in calculation of profits.

- (xiv) If a commodity with elastic demand is overtaxed who will bear most of the tax?
- (a) Rich people.
 - (b) Consumers.
 - (c) The poor.
 - (d) Producers.
- (xv) A favourable balance of trade is where value of:
- (a) visible exports is greater than value of invisible imports.
 - (b) exports is greater than imports.
 - (c) invisible exports is greater than the value of invisible imports.
 - (d) visible exports is greater than value of visible imports.
- (xvi) Given 105 as the import price index and 108 as the export price index, the terms of trade are:
- (a) 102.85.
 - (b) 105.24.
 - (c) 97.22.
 - (d) 99.40.
- (xvii) The terms of trade in question (xvi) above can be described as:
- (a) favourable.
 - (b) unfavourable.
 - (c) stable.
 - (d) balanced.
- (xviii) Which of the following applies to a firm under perfect competition in the long run?
- (a) Earns supernormal profits.
 - (b) Earns normal profits.
 - (c) Incurs losses.
 - (d) Sells at low prices.
- (xix) Which of the following is not a cost of economic growth?
- (a) Unemployment.
 - (b) Rural urban migration.
 - (c) Inflation.
 - (d) Pollution.
- (xx) A transfer payment is:
- (a) the supply price of a factor of production.
 - (b) the transfer of money between countries.
 - (c) payment of external debt by government.
 - (d) expenditure for which no goods or services are exchanged.

SECTION B

Question 2

- (a) Distinguish between price control and price discrimination. (4 marks)
 - (b) Give any four advantages of price discrimination. (4 marks)
 - (c) What are the conditions necessary for price discrimination to succeed? (7 marks)
- (Total 15 marks)**

Question 3

- (a) Give any five goals of development in your country. (5 marks)
 - (b) Explain any five factors that should be considered to achieve economic growth. (10 marks)
- (Total 15 marks)**

Question 4

- (a) Define the term inflation. (1 mark)
 - (b) Distinguish between demand-pull and cost-push inflation. (4 marks)
 - (c) Explain any five ways in which inflation is useful to a country. (10 marks)
- (Total 15 marks)**

Question 5

- (a) Outline any five assumptions of the process of credit creation. (5 marks)
 - (b) Explain the limitations to credit creation in your country. (10 marks)
- (Total 15 marks)**

Question 6

- (a) Define the term 'tax'. (1 mark)
 - (b) Distinguish between a progressive tax and a regressive tax. (4 marks)
 - (c) What are the causes of low taxable capacity in less developed countries? (10 marks)
- (Total 15 marks)**

Question 7

- (a) What is economic integration? (1 mark)
 - (b) Distinguish between a customs union and a common market. (4 marks)
 - (c) What are the merits of economic integration? (10 marks)
- (Total 15 marks)**