

ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

ECONOMIC ENVIRONMENT - PAPER 2

THURSDAY, 9 DECEMBER 2010

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.

© 2010 Public Accountants Examinations Board

SECTION A

Question 1

- (i) In a mixed economy, resources are owned by:
 - (a) the state.
 - (b) private individuals.
 - (c) foreign investors.
 - (d) both the government and private individuals.
- (ii) Where an increase in the price of a good leads to an increase in its quantity demanded, the good is said to be:
 - (a) inferior.
 - (b) giffen
 - (c) necessity.
 - (d) normal.
- (iii) Which of the following constitute variable costs?
 - (a) Cost of land and cost of labour.
 - (b) Cost of raw materials and depreciation cost.
 - (c) Cost of labour and cost of raw materials.
 - (d) Cost of land and depreciation cost
- (iv) In an open economy, injections include:
 - (a) investment, government expenditure and exports.
 - (b) savings, investment and exports.
 - (c) taxes, savings and imports.
 - (d) imports, exports and government expenditure.
- (v) Which of the following may cause the real income of a consumer to fall?
 - (a) A decrease in prices of goods and services.
 - (b) An increase in prices of goods and services.
 - (c) An increase in production.
 - (d) A decrease in taxation
- (vi) The principal aim of a commercial bank is to:
 - (a) lend money.
 - (b) accept deposits.
 - (c) make profits.
 - (d) charge interest.

- (vii) Which of the following is **NOT** a function of a central bank?
- (a) Issuing currency.
 - (b) Managing the public debt.
 - (c) Controlling the value of the currency.
 - (d) Lending money to the public
- (viii) Which of the following is **NOT** an effect of a deflation?
- (a) inflation.
 - (b) unemployment.
 - (c) low output.
 - (d) excess capacity.
- (ix) The measure of the quantity and quality of output that labour can produce in a given period of time is called:
- (a) productivity of labour.
 - (b) efficiency of labour.
 - (c) total output of labour.
 - (d) capacity of labour
- (x) The main cause of open urban unemployment is:
- (a) inadequate skills.
 - (b) limited employment opportunities.
 - (c) rural-urban migration.
 - (d) use of modern technology.
- (xi)is the difference between the value of visible exports and value of visible imports of a country.
- (a) Balance of trade
 - (b) Balance of payment
 - (c) Terms of trade
 - (d) Visible trade
- (xii) The strategy of setting up industries to produce the formerly imported goods at home is called:
- (a) export promotion.
 - (b) import substitution.
 - (c) import promotion.
 - (d) import restriction.

- (xiii) Macro planning is the planning for:
- (a) a specific region or sector.
 - (b) special projects.
 - (c) the whole economy.
 - (d) macroeconomics.
- (xiv) A tax whose rate decreases with the increase in the tax base is:
- (a) degressive.
 - (b) proportional.
 - (c) progressive.
 - (d) regressive.
- (xv)is where a country relies on foreign made decisions to foster her development.
- (a) Trade dependence
 - (b) Sectoral dependence
 - (c) Direct economic dependence
 - (d) External resource dependence
- (xvi) A situation where labour is actively involved in production but the marginal productivity is zero or negative is described as:
- (a) underemployment.
 - (b) casual unemployment.
 - (c) disguised unemployment.
 - (d) Keynesian unemployment.
- (xvii) Which of the following is **NOT** a reason for minimum wage legislation?
- (a) Reducing income inequalities.
 - (b) Enhancing productivity.
 - (c) Minimizing strikes.
 - (d) Reducing unemployment.
- (xviii) The following are tools of protectionist policy **EXCEPT:**
- (a) tariffs.
 - (b) total ban.
 - (c) subsidies.
 - (d) loans.

- (xix) The persistent quantitative increase in the real output of a country is called:
- (a) economic growth.
 - (b) economic development.
 - (c) self sufficiency.
 - (d) prosperity.
- (xx) A business organisation whose membership ranges between 2 – 50 members is a:
- (a) public limited company.
 - (b) private limited company.
 - (c) partnership.
 - (d) joint stock company.

SECTION B

Question 2

- (a) Define the term 'price mechanism'.
(2 marks)
- (b) Outline **four** assumptions on which the price mechanism is based.
(4 marks)
- (c) Explain **seven** roles of the price mechanism in allocating resources.

(14 marks)
(Total 20 marks)

Question 3

- (a) Distinguish between location and localisation of industry.
(4 marks)
- (b) State **four** objectives of a firm.
(4 marks)
- (c) Explain **six** factors that influence the location of industry in an economy.

(12 marks)
(Total 20 marks)

Question 4

- (a) Distinguish between cost of living and standard of living.
(4 marks)
- (b) Outline **four** uses of price index numbers.
(4 marks)
- (c) Give **six** problems faced in compiling price index numbers.
(12 marks)
- (Total 20 marks)**

Question 5

- (a) Define the following terms:
- (i) Cost push inflation (2 marks)
 - (ii) Speculative inflation (2 marks)
 - (iii) Monetary inflation (2 marks)
 - (iv) stagflation (2 marks)
- (b) Explain **six** causes of inflation in an economy.
(12 marks)
- (Total 20 marks)**

Question 6

- (a) Define the term 'economic development planning'.
(2 marks)
- (b) Distinguish between partial planning and comprehensive planning.
(4 marks)
- (c) Explain **seven** limitations to the successful implementation of development plans in developing countries.
(14 marks)
- (Total 20 marks)**

Question 7

- (a) Distinguish between the following:
- (i) Internal debt and external debt.
(4 marks)
 - (ii) Reproductive debt and deadweight debt.
(4 marks)
- (b) Give **six** reasons why a country incurs public debts.
(12 marks)

(Total 20 marks)