

**THE INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



**NOVEMBER 2005 EXAMINATIONS
(PROFESSIONAL)**

PART 1

**ECONOMICS
(Paper 1.3)**

Attempt ANY Five (5) Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

- a. Explain the term “opportunity cost”. (4 marks)
- b. Why is “what to produce” a problem in every economy? (8 marks)
- c. How is this problem resolved:
- i. in a market economy? (4 marks)
- ii, in a centralized economy? (4 marks)

(Total: 20 marks)

QUESTION 2

- a. What is monopolistic competition? (2 marks)
- b. Explain the three (3) main characteristics of monopolistic competition. (6 marks)
- c. With the aid of a diagram, compare the long run equilibrium of a monopolistic competitive firm and perfectly competitive firm assuming the same cost conditions. (12 marks)

(Total: 20 marks)

QUESTION 3

- a. Suppose consumer Ama consumes only two (2) goods, A and B. Under what condition(s) will she be in equilibrium and maximise utility? (4 marks)
- b. Assume that Ama has the following total utility data for products A and B:

<u>Units</u>	<u>Total Utility of A</u>	<u>Total Utility of B</u>
1	1800	3200
2	3000	5600
3	3800	7200
4	4200	8000
5	4400	8400

If the prices of A and B are ¢600 and ¢800 respectively, and that Ama has an income of ¢3,600 to spend on A and B:

- i. what combinations of A and B should Ama consume to maximise utility? (6 marks)
- ii. what is the level of total utility for Ama in equilibrium? (2 marks)
- iii. if the price of A decreases to $\text{¢}400$, find the utility-maximising combination of the two (2) products. (6 marks)
- iv. sketch the demand curve for product A. (2 marks)

(Total: 20 marks)

QUESTION 4

- a. Explain the relationship between inferior and normal goods in relation to changes in consumer income. (4 marks)
- b. Blue jeans have become even more popular and now people wear them for all occasion especially our women.
 - i. With traditional demand and supply curves, explain how this change will affect the equilibrium price and quantity of blue jeans. (8 marks)
 - ii. Explain with appropriate diagram(s) how the change will affect the equilibrium price and quantity of wax prints in Ghana, assuming that the cross elasticity of demand for blue jeans and wax prints is positive. (8 marks)

(Total: 20 marks)

QUESTION 5

- a. Explain any two (2) gains from International Trade. (6 marks)
- b. Explain any three (3) reasons for imposing restrictions on International Trade. (9 marks)
- c. Describe any two (2) measures used to restrict International Trade. (5 marks)

(Total: 20 marks)

QUESTION 6

- a. What is Balance of Payments? (4 marks)
- b. Describe the main components of a Balance of Payments. (12 marks)
- c. Explain Balance of Payment Deficit. (4 marks)

(Total: 20 marks)

QUESTION 7

- a. Assume that the cash ratio of a banking system is 10%, there is no cash leakage and that a bank receives a new deposit of €5 million.
 - i. Calculate the maximum impact of this new deposit on money supply.
 - ii. Determine the total impact on the banking system's deposit.
- b. Explain any four (4) conditions under which credit creation is possible.
- c. Explain any two (2) limitations to money creation.

(Total: 20 marks)