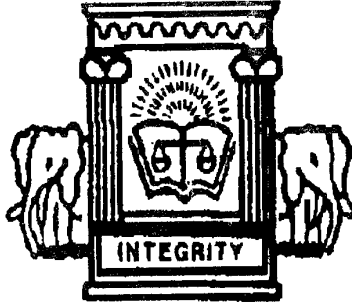


**THE INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



**MAY 2007 EXAMINATIONS
(PROFESSIONAL)**

PART 1

**ECONOMICS
(Paper 1.3)**

Attempt five (5) Questions

TIME ALLOWED: 3 HOURS

RUBRIC INSTRUCTIONS

Read the following instructions carefully before attempting the questions.

This paper is in **two (2)** Parts namely:

1) **SECTION A**

This section has four (4) questions out of which candidates are required to attempt only **THREE (3)**.

2) **SECTION B**

This section has **three (3)** questions out of which candidates are required to attempt only **TWO (2)**.

SECTION A

NB: Answer only 3 questions in this Section

QUESTION 1

- (a) Distinguish between competitive supply and joint supply. *(4 marks)*
- (b) Palm oil and Palm kernel oil are jointly supplied. What would be the effect of an increase in demand for palm oil on the prices and quantities of the two products? Illustrate your answer with appropriate diagrams. *(16 marks)*
- (Total: 20 marks)**

QUESTION 2

- (a) Distinguish between returns to variable proportion and returns to scale *(5 marks)*
- (b) With appropriate illustration explain the following:
- i) increasing returns to scale *(5 marks)*
 - ii) constant returns to scale *(5 marks)*
 - iii) decreasing returns to scale *(5 marks)*
- (Total: 20 marks)**

QUESTION 3

- (a) Distinguish between the substitution effect and income effect of a change in price of a commodity. *(6 marks)*
- (b) i) What is a price consumption curve? *(2 marks)*
- ii) Show how the demand curve of an individual consumer for a commodity can be derived from the price consumption curve. *(12 marks)*
- (Total: 20 marks)**

QUESTION 4

The diagram below illustrates the short run equilibrium of a firm operating in a perfectly competitive industry. Study the diagram and answer the questions that follow.

- (a) How much does the firm receive for each unit of its equilibrium output? Explain your answer **(3 marks)**
- (b) At what output is the profit of the firm maximized? **(1 mark)**
- (c) At the output level in (b) above, calculate the following:
- i) total revenue
 - ii) total cost
 - iii) profit **(9 marks)**
- (d) (i) Should the firm continue to produce when price falls to €600? Explain your answer. **(3 marks)**
- (ii) Should the firm expand production to 100 units? Explain your answer. **(4 marks)**
- (Total: 20 marks)**

SECTION B

NB: Answer only two (2) Questions in this Section

QUESTION 5

- (a) What is meant by exchange rate? *(2 marks)*
- (b) Briefly explain the balance of payments accounts of Ghana using the following headings:
- i) balance of trade
 - ii) current account balance
 - iii) capital account *(12 marks)*
- (c) What will be the effect of each of the following trends on the balance of payments?
- i) Rapid decline in world demand for cocoa.
 - ii) A major expansion of the tourism industry in Ghana. *(6 marks)*

(Total: 20 marks)

QUESTION 6

The Bank of Ghana will from July 2007 redenominate the cedi hoping to maintain the value of the cedi.

- (a) What is meant by the term **the value of money**? *(4 marks)*
- (b) Explain the meaning of redenomination of a currency. *(4 marks)*
- (c) Identify and explain two benefits to be derived from the redenomination of the cedi in business operations. *(6marks)*
- (d) State and explain two (2) possible negative consequences of the redenomination to business operations in Ghana. *(6 marks)*

(Total: 20 marks)

QUESTION 7

- (a) Distinguish between a progressive tax and a proportional tax *(5 marks)*
- (b) Give and explain three (3) reasons why governments impose taxes. *(9 marks)*
- (c) Explain two (2) qualities of a good tax system. *(6 marks)*

(Total: 20 marks)