

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



**NOVEMBER 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 three (3) questions in this Section

QUESTION 1

- (a) What is the difference between the following:
- (i) An indifference curve and a demand curve?
 - (ii) Diminishing marginal utility and marginal rate of substitution? *(8 marks)*
- (b) With the aid of indifference curves, explain when a consumer with a given budget will be in equilibrium. *(12 marks)*
- (Total: 20 marks)**

QUESTION 2

The Table below shows the cost structure of a firm.

Output	Fixed Cost	Total Variable Cost	Total Cost	Average Total Cost	Marginal Cost	Total Revenue	Profit
0	1000	0					
1	1000	500					
2	1000	1200					
3	1000	1800					
4	1000	3000					
5	1000	4000					
6	1000	4700					
7	1000	5200					

Use the information in the Table to answer the following questions:

- (a) What is the firm's
- (i) average cost of producing each output? *(4 marks)*
 - (ii) marginal cost of producing each output? *(4 marks)*

- (b) If the industry price is fixed at GH¢1200 and the firm chooses 4 units of output as its profit maximizing output, determine whether this decision is right or wrong. (7 marks)
- (c) What is the maximum achievable profit? (5 marks)
- (Total: 20 marks)**

QUESTION 3

Suppose you have been appointed the ticket sales manager of CAN 2008 and charged with maximizing profit from ticket sales. You have decided to segregate the spectators into two groups (**A** and **B**) and charge different rates. You have also found out that the cost of providing the service to the two markets is the same.

Required:

- a. Identify and explain the economic principle guiding your decision. (6 marks)
- b. State and explain **three (3)** conditions that must prevail for you to practice this segregation of spectators. (6 marks)
- c. Explain how you will determine whether you are maximizing profit from ticket sales. (8 marks)
- (Total: 20 marks)**

QUESTION 4

- (a) Explain the term privatization. (4 marks)
- (b) Advance **four (4)** arguments to justify the privatization programme in Ghana. (16 marks)
- (Total: 20 marks)**

SECTION B

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

QUESTION 5

- (a) Explain the difference between:
- (i) GDP at market prices and GDP at factor cost. *(5 marks)*
 - (ii) GNP and GDP. *(5 marks)*
- (b) Identify and explain **four (4)** uses of national income statistics. *(10 marks)*
- (Total: 20 marks)**

QUESTION 6

- (a) Distinguish between money market and capital market. *(4 marks)*
- (b) Outline **four (4)** roles played by the stock market in Ghana. *(16 marks)*
- (Total: 20 marks)**

QUESTION 7

- (a) Distinguish between Recurrent Budget and Capital Budget. *(8 marks)*
- (b) Explain **four (4)** sources available to a government for financing budget deficit. *(12 marks)*
- (Total: 20 marks)**