

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



**MAY 2010 EXAMINATIONS  
(PROFESSIONAL)**

**PART 1**

**ECONOMICS  
(Paper 1.3)**

**Attempt five (5) Questions**

**TIME ALLOWED:**

<b>Reading &amp; Planning</b>	<b>-</b>	<b>15 Minutes</b>
<b>Working</b>	<b>-</b>	<b>3 Hours</b>

## SECTION A (MICROECONOMICS)

### NB: Answer only three (3) Questions in this Section

#### QUESTION 1

- a) What is a Production Possibility Curve? *(4 marks)*
- b) With the aid of a Production Possibility Curve illustrate the following concepts:
- i) Opportunity Cost *(6 marks)*
- ii) Economic Growth *(6 marks)*
- c) Why is economics considered as a social science? *(4 marks)*

**(Total: 20 marks)**

#### QUESTION 2

- a) State the law of diminishing returns to variable proportions. *(4 marks)*
- b) Identify **three (3)** elements of the law of diminishing returns to variable proportions. *(6 marks)*
- c) With the aid of a marginal product curve explain the various phases of the law of variable proportions. *(10 marks)*

**(Total:20 marks)**

#### QUESTION 3

- a) Explain why the market demand curve for a normal good is negatively sloped. *(6 marks)*
- b) Using appropriate illustration, explain how a market surplus for a normal good will lead to a change in the market equilibrium price and quantity. *(7 marks)*
- c) With the aid of an appropriate diagram, explain how the equilibrium price and quantity trade of a normal good change with the introduction of a per unit tax on the suppliers. *(7 marks)*

**(Total: 20 marks)**

#### QUESTION 4

The following table shows the costs and revenue situations in Thelore Manufacturing Company. Use it to answer the questions that follow:

Output (Ton)	Price per unit (¢)	Total Revenue (¢)	Total Fixed Cost (¢)	Total Variable Cost (¢)	Total Cost (¢)	Total Profit (¢)
0	-		50		50	
1	20		50		60	
2	20		50		70	
3	20		50		80	
4	20		50		90	
5	20		50		100	

- a) What production period does the Table depict? Explain *(3 marks)*
- b) Identify the market structure in which Thelore Manufacturing Company is operating. *(3 marks)*
- c) Copy and complete the Table by calculating the following:
- i. the total Revenue at each level of output *(3 marks)*
  - ii. the total Variable cost at each level of output *(3 marks)*
  - iii. the total Profit at each level of output *(3 marks)*
- d) Should Thelore shut down if its current rate of sales averages 5 tons? Explain your answer. *(5 marks)*

*(Total: 20 marks)*

## SECTION B (MACROECONOMICS)

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

#### QUESTION 5

- a) State the **three (3)** factors which determine the demand for money. (6 marks)
- b) Explain how an expansionary monetary policy would lead to an increase in transactions and the precautionary demand for money. (5 marks)
- c) Explain the **three (3)** key instructions used in monetary policy. (9 marks)
- (Total: 20 marks)**

#### QUESTION 6

As an accountant your firm is considering a proposal to site a subsidiary of your company in another country to produce a range of goods. After a research conducted on the country you observed that the country's macroeconomic behaviour can be summarized by the following equations:

$$\begin{aligned} Y &= C + I \\ C &= 250 + 0.5Y \\ I &= 500 \end{aligned}$$

Where  $Y$  is the country's national income,  $C$  is consumption expenditure and  $I$  is investment expenditure.

- a) Calculate the country's equilibrium levels of
- Income;
  - Consumption.
- (8 marks)**
- b) Explain what would happen to the equilibrium level of national income if your firm entered the country and increased investment by 50. (6 marks)
- c) Explain **three (3)** types of measures a government could introduce to encourage foreign firms to invest in their country. (6 marks)
- (Total: 20 marks)**

#### QUESTION 7

- a) Identify **four (4)** measures that are available to a government to reduce an adverse trade balance. (12 marks)
- b) Explain **four (4)** reasons why governments often try to impose restrictions on free trade. (8 mark)
- (Total: 20 marks)**