

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



**MAY 2008 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)** Sections:

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 “Supply” and the “Law of supply”? *(6 marks)*
- (b) How will the following events affect the equilibrium price and quantity supplied of maize in Ghana?

Illustrate your answer with diagrams.

- (i) Very favourable natural conditions. *(7 marks)*
- (ii) An increase in the price of fertilizer. *(7 marks)*

**(Total: 20 marks)**

### QUESTION 2

- (a) Explain the following concepts:
- (i) Labour as a factor of production
- (ii) Labour force *(4 marks)*
- (b) Outline any **three (3)** measures that a government can take to improve the efficiency of its labour force. *(9 marks)*
- (c) Using a table, classify the following resources under the various factors of production:
- |                                     |                           |
|-------------------------------------|---------------------------|
| (i) Teacher                         | (vi) Mountains            |
| (ii) Fertilizer                     | (vii) Fisherman           |
| (iii) Janitor                       | (viii) Bridges            |
| (iv) Oil field                      | (ix) Mortar and Pestle    |
| (v) Self employed managing director | (x) Ordinary Shareholders |

*(7 marks)*

**(Total: 20 marks)**

### QUESTION 3

(a) Distinguish between the following concepts:

(i) Implicit cost and explicit cost.

(ii) Social cost and private cost

*(8 marks)*

(b) Mr. Ofori earns GH¢2,800 per annum as an accounting officer. He owns a building that he rents for GH¢10,000 yearly and his treasury bills generate GH¢3,000 per year in interest. Mr. Ofori quits his job, evicts his tenants and converts his treasury bills to establish a fruit processing factory. At the end of the year his financial books tell the following story:

	GH¢
Cost of fruits	85,000
Employee wages	20,000
Utilities	5,000
Tax	5,000
Advertising expenses	10,000
Total sales revenue	150,000

i. Calculate the explicit costs of Mr. Ofori

*(3 marks)*

ii. What is the accounting profit or loss of the factory?

*(2 marks)*

iii. Identify and calculate the implicit costs of Mr. Ofori

*(4 marks)*

iv. What is the economic profit or loss of Mr. Ofori?

*(3 marks)*

**(Total: 20 marks)**

#### QUESTION 4

(a) Distinguish between fixed inputs and variable inputs. (4 marks)

(b) The table below shows the behaviour of output of a firm operating in the shortrun

No. of workers	Total product	Average product	Marginal product
1	80		
2	170		
3	270		
4	368		
5	430		
6	480		
7	504		
8	504		

(i) Define marginal product (2 marks)

(ii) Copy and complete the table. Show all workings (8 marks)

(iii) Explain the principle underlying the behaviour of the marginal products. (6 marks)

**(Total: 20 marks)**

## SECTION B

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

### QUESTION 5

- (a) Identify and explain **four (4)** advantages of free trade. *(8 marks)*
- (b) Explain any **four (4)** measures that a government can adopt to reduce the level of imports. *(12 marks)*

**(Total: 20 marks)**

### QUESTION 6

- (a) Explain
- (i) Absolute advantage
  - (ii) Comparative advantage *(6 marks)*
- (b) In the two-country, two-good case where one country has an absolute advantage in the production of both goods, explain (using a simple numerical example) how specialization and trade are still possible.

*(14 marks)*

**(Total: 20 marks)**

### QUESTION 7

- a) What is monetary policy? *(5 marks)*
- b) Identify **three (3)** tools of monetary policy. *(3 marks)*
- c) Explain how the Central Bank of a nation can use the tools you identified in (b) to control money supply *(12 marks)*

**(Total: 20 marks)**