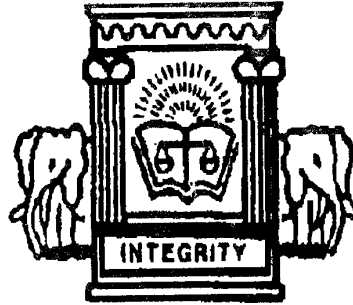


**THE INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



**NOVEMBER 2008 EXAMINATIONS
(PROFESSIONAL)**

PART 1

**ECONOMICS
(Paper 1.3)**

Attempt five (5) Questions

TIME ALLOWED: 3 HOURS

SECTION A

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

QUESTION 1

- a. Identify and explain the basic economic problem. *(5 marks)*
- b. Explain why in economics choices are unavoidable. *(5 marks)*
- c. Explain the term **opportunity cost**. *(5 marks)*
- d. What is a Production Possibility Curve? *(5 marks)*

Total: 20 marks

QUESTION 2

The following hypothetical equations describe monthly demand and supply relations for pipe borne water in the city of Accra.

$$Q_D = 500,000 - 50,000P \quad (\text{Demand})$$

$$Q_S = -100,000 + 100,000P \quad (\text{Supply})$$

Where Q is the quantity measured by the litres of pipe borne water per month and P the price per litre of pipe borne water in Ghana cedis.

Suppose the Public Utility Regulatory Commission fixes the price per litre of pipe borne water at GH¢3.

Required:

- a) Determine the equilibrium price and quantity of pipe borne water in the city of Accra before the price fixing. *(5 marks)*
- b) What is the Total revenue in equilibrium? *(2 marks)*
- c) How is this type of price fixing called? Explain your answer. *(4 marks)*
- d) Calculate the quantity demanded and supplied at the fixed price. *(4 marks)*
- e) Determine the state of the pipe borne water market in the city of Accra after the fixing of the price at GH¢3. Explain your answer. *(5 marks)*

Total: 20 marks

QUESTION 3

- (a) Explain what profit is. *(4 marks)*
- (b) Distinguish between accounting profit and economic profit. *(4 marks)*
- (c) Identify and explain **three (3)** functions of profit in an economic system. *(12 marks)*

Total: 20 marks

QUESTION 4

- a. Discuss **four (4)** features of a perfectly competitive market. *(8 marks)*
- b. Draw and explain a diagram showing a perfectly competitive firm making a short-run loss but remaining in production. In your diagram, include and label the following curves: average revenue (AR), marginal revenue (MR), average cost (AC), average variable cost (AVC) and marginal cost (MC). *(12 marks)*

Total: 20 marks

SECTION B

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

QUESTION 5

- (a) What is fiscal policy?
(4 marks)
- (b) Identify and explain **four (4)** reasons why government imposes taxes.
(16 marks)

Total: 20 marks

QUESTION 6

- (a) Distinguish between Gross Domestic Product (GDP) and Gross National Product (GNP).
(8 marks)
- (b) Explain any **four (4)** uses of national income data.
(12 marks)

Total: 20 marks

QUESTION 7

- (a) Define the term Inflation.
(2 marks)
- (b) Identify and explain **three (3)** factors each why the following macroeconomic issues are of importance to business:
- (i) A rise in the rate of inflation
(9 marks)
- (ii) An increase in government spending.
(9 marks)

Total: 20 marks