

**INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



**NOVEMBER 2010 EXAMINATIONS
(PROFESSIONAL)**

PART 1

**ECONOMICS
(Paper 1.3)**

Attempt five (5) Questions

TIME ALLOWED:

Reading & Planning	-	15 Minutes
Working	-	3 Hours

SECTION A (MICROECONOMICS)

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

QUESTION 1

The following were statements made by four candidates who were reviewing production possibility curve for ICA examination in Economics.

- (a) Mary – “One reason why the production possibility curve is bowed out or concave to the origin is that the efficiency with which resources are used in production varies”.
- (b) Daniel – “If an economy is on its production possibility curve, the only way to acquire more of one good is to accept less of something else”.
- (c) Grace – “Technological advancement shifts the production possibility curve inward”.
- (d) Kyei – “Production possibility curve is linear if Marginal Rate of Transformation (MRT) is constant”.

Required:

Ascertain whether these statements are **TRUE** or **FALSE** and explain your answer.

(5 marks each)

(Total 20 marks)

QUESTION 2

Use the information below to answer question 2.

A Marketing Board has fixed the price of cocoa at GHS10 a kilo. The total output for the season by cocoa farmers is 100,000 kg and the entire crop is sold to the Board. Ignore administrative expenses.

The market demand for cocoa is depicted in the table below:

Price per kilo (GHS)	Quantity demanded (in kilos)
6	120 000
7	100 000
8	80 000
9	60 000
10	40 000

- (a) What form of price fixing is this? Explain.

(3 marks)

- (b) Suppose the farmers sell directly to the consumers:
- (i) What will be the market clearing price? Explain. *(3 marks)*
 - (ii) What will be the total revenue of the farmers? *(2 marks)*
- (c) What will be the total revenue of the farmers if they sell to the board? *(2 marks)*
- (d) If the Board sells the cocoa beans to the consumers at GHS7. Calculate the profit or loss of the Board. *(3 marks)*
- (e) Suppose the Board sells the cocoa beans to consumers at GHS10.
- (i) What will be the excess demand or the excess supply in the market? *(2 marks)*
 - (ii) What will be the total revenue of the Board? *(2 marks)*
- (f) Sketch the demand and supply curves that this board faces. *(3 marks)*
- (Total: 20 marks)**

QUESTION 3

- (a) Distinguish between “economies of scale” and “diseconomies of scale”. *(8 marks)*
- (b) With diagrams, explain how the following affect the long run average cost curve.
- (i) Internal economies of scale *(3 marks)*
 - (ii) Internal diseconomies of scale *(3 marks)*
 - (iii) External economies of scale *(3 marks)*
 - (iv) External diseconomies of scale. *(3 marks)*
- (Total: 20 marks)**

QUESTION 4

- (a) Outline **four (4)** features of perfect competition. **(8 marks)**
- (b) With a diagram explain in the short run, under what circumstance a perfect competitor will remain in business making a loss.

(12 marks)

(Total: 20 marks)

SECTION B (MACROECONOMICS)

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

QUESTION 5

- (a) Define inflation. (2 marks)
- (b) How is the rate of inflation measured? (2 marks)
- (c) State the meanings of the following terms
- (i) Actual Inflation Rate
 - (ii) Anticipated Inflation
 - (iii) Expected Rate Inflation
 - (iv) Unanticipated Inflation
- (8 marks)
- (d) Explain how any **four (4)** monetary policy tools can be used to reduce inflation in your country. (8 marks)

(Total: 20 marks)

QUESTION 6

The data below are the national income statistics of a country in 2009. All figures in million of cedis.

Personal Consumption (C)	900
Gross Domestic private Investment (I)	150
Government Purchases	230
Exports (X)	50
Imports (M)	70
Factor Income paid abroad (YF)	20
Factor Income received from abroad (YN)	30
Indirect Taxes (T)	250
Subsidies	100
Depreciation	90

Use the data to answer section (a) and (b) of question 6.

- (a) Compute the following
- (i) The Total Domestic Expenditure (TDE) of the economy. *(3 marks)*
 - (ii) The Gross Domestic Expenditure (GDE) of the economy. *(3 marks)*
 - (iii) The Net Domestic Expenditure (NDE) of the economy. *(3 marks)*
 - (iv) The Net National Expenditure (NNE) of the economy at factor cost. *(3 marks)*
- (b) What is the trade balance of the economy in 2009? Explain your answer. *(2 marks)*
- (c) Explain any **two (2)** uses of national income estimates. *(6 marks)*
- (Total: 20 marks)**

QUESTION 7

- (a) State any **three (3)** gains from International Trade. *(9 marks)*
- (b) Explain any **three (3)** reasons for imposing restrictions on International Trade. *(9 marks)*
- (c) List **two (2)** measures used to restrict International Trade. *(2 marks)*
- (Total: 20 marks)**