



**CENTRAL
UNIVERSITY**

FAITH • INTEGRITY • EXCELLENCE

**2020/2021 END OF SECOND SEMESTER
EXAMINATIONS**

FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

ECON 102: Introduction to Economics II

Time Allowed: 2 hours

INSTRUCTIONS

Answer all questions in Section **A** and any two (2) questions in Section **B**.

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SECTION A: OBJECTIVE TEST
(Answer all questions in this section)

1. Total monetary value of all final goods and services produced within the boundaries of a country is called
 - a) Net Domestic Product
 - b) Gross Domestic Product
 - c) Gross National Product
 - d) Net National product

2. The extra worth that a firm or producer adds to a product in course of production is called
 - a) Cost of production
 - b) Extra worth
 - c) Value added
 - d) Final value

3. A firm buys GH¢1000 of wheat, mills and bakes it using GH¢1000 of labour. The firm sells the bread for GH¢2500 making profit of GH¢500. The extra worth the firm adds to the wheat is...
 - a) GH¢500
 - b) GH¢1000
 - c) GH¢2500
 - d) GH¢1500

Use the information below to answer questions 4 to 9

As an economist your firm is considering sitting 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:

$$Y = C + I$$
$$C = 250 + 0.6Y$$
$$I = 500$$
$$Dep = 100$$

Where Y is the country's GDP, C is consumption expenditure I is investment expenditure and Dep is depreciation.

4. What is the equilibrium level of GDP?
 - a) 1800
 - b) 1500
 - c) 750
 - d) 1875

5. Determine the equilibrium level of consumption.
- a) 1150
 - b) 1500
 - c) 500
 - d) 1375
6. What is the NDP for this economy?
- a) 1775
 - b) 1500
 - c) 1600
 - d) 1000
7. By how much does the capital stock of this economy increase?
- a) 500
 - b) 100
 - c) 400
 - d) 600
8. Find investment expenditure multiplier
- a) 1.6
 - b) 2.5
 - c) 6.1
 - d) 5.2
9. Suppose investment expenditure increases by 50, what is the new level of GDP?
- a) 1500
 - b) 1800
 - c) 1600
 - d) 2000
10. Market price minus indirect tax or plus subsidy gives the...
- a) Net Price
 - b) Price floor
 - c) Price ceiling
 - d) Value added
11. Given a market price of GH¢20 for an item, if the factor cost of that item is GH¢25, what has accounted for the difference between the market price and the factor cost?
- a) Subsidy
 - b) Tax
 - c) Inflation
 - d) Deflation

12. The difference between GNP and GDP is called.....
- a) Depreciation
 - b) Net factor income (NFI)
 - c) Taxes
 - d) Subsidies
13. How do national income statisticians account for capital consumption in the course of accounting for GDP?
- a) Add Taxes
 - b) Value GDP in real terms
 - c) Subtract Net Factor Income
 - d) Subtract Depreciation
14. _____ measures the monetary value of output in a given period in the prices of that period.
- a) Nominal GDP
 - b) Real GDP
 - c) Weighted GDP
 - d) GDP deflator
15. Given Nominal GDP to be GH¢200, find the real GDP if Price Index is 110.
- a) 181.82
 - b) 1.82
 - c) 5.50
 - d) 0.55
16. National income can be calculated by
- a) Income Approach
 - b) Product Approach
 - c) Expenditure Approach
 - d) All of the above
17. Which of the following pairs has a negative relationship?
- a) Disposable income and Consumption
 - b) Disposable income and Savings
 - c) Expected rate of return and Investment
 - d) Real interest rate and investment spending

Given the savings function as $S = -4000 + 0.25Y^d$. Use it to answer question 18 to 21

18. What is the complementary consumption function?
- a) $C = 6000 + 0.75 Y^d$
 - b) $C = 4000 + 0.75 Y^d$
 - c) $C = -4000 + 0.25Y^d$
 - d) $C = 4000 + 0.25Y^d$

19. Given your answer in question 18 which part of the consumption function measures the extent of a change in consumption expenditure with respect to a change in disposable income?
- a) 4000
 - b) -4000
 - c) 0.25
 - d) 0.75
20. What is the income induced consumption?
- a) $0.25 Y^d$
 - b) 0.25
 - c) $0.75 Y^d$
 - d) 0.75
21. The negative forty (-4000) in the savings function is termed as
- a) Saving
 - b) Autonomous savings
 - c) Non-income induced Consumption
 - d) Income induced saving
22. Which of the following factors will increase the level of consumption expenditure
- a) Expectation of decrease in the level of prices
 - b) Expectation of increase in the level of prices
 - c) Low level of current disposable income
 - d) High level of prices
23. The percentage or fraction of any additional income that is consumed is termed as.....
- a) MPS
 - b) MPC
 - c) APS
 - d) APC
24. Spending devoted towards increasing or maintaining a nation's stock of capital is termed as.....
- a) Capital expenditure
 - b) Consumption expenditure
 - c) Investment expenditure
 - d) Government expenditure

25. What accounts for the difference between gross investment and net investment?

- a) Net factor income
- b) Capital consumption allowance
- c) Inflation
- d) Deflation

26. Which of the following is not an injections of spending?

- a) Government expenditure
- b) Investment
- c) Net taxes
- d) Export

Use the information given below to answer question 27 to 30.

According to a Bank's annual report (2020), the Bank's total deposits was GH¢2,400 million in 2019. During this accounting period the cash ratio or the minimum reserve ratio was 12.5%.

27. What was the reserve multiplier for this bank?

- a) 12.5%
- b) 10%
- c) 8
- d) 10

28. Calculate the banks cash/required reserve for this period.

- a) GH ¢240 million
- b) GH ¢300 million
- c) GH ¢2,100 million
- d) GH ¢2,400 million

29. What was the Excess reserve for this period?

- a) GH ¢2,100 million
- b) GH ¢2,160million
- c) GH ¢2,400 million
- d) GH ¢2,500 million

30. Assuming no cash drain from the system, determine the total credit created during this period.

- a) GH ¢16,800 million
- b) GH ¢19,200 million
- c) GH ¢21,000 million
- d) GH ¢24,000 million

31. Which of the following is a liability of a commercial bank?
- a) Customers Deposits with the commercial bank
 - b) Commercial bank deposit with the central bank
 - c) Loans to customers
 - d) Overdrafts
32. A stock exchange is a market that
- a. Deals with the exchange of commodities
 - b. Deals with the purchase and sale of securities
 - c. Exchange treasury bills for bills of exchange
 - d. Sells foreign exchange
33. If computers are related to the goods market, lecturers are also related to the
- a. Goods market
 - b. Macro market
 - c. Money market
 - d. Labour market
34. If Ghana experiences a very bad weather conditions which affects the macro economy which of the following output variable is/are likely to occur
- i. High Inflation
 - ii. Unemployment
 - iii. External benefits
 - iv. Depreciating Exchange rate
- a) i only
 - b) i and ii only
 - c) i , ii and iii only
 - d) i, ii and iv only
35. Oil price hikes on the global market that affects the macro economy and results in a decline in the Gross Domestic Product is a
- a) Macro Policy
 - b) Micro Policy
 - c) External Factor
 - d) Output Variable
36. National income is measured after an economic activity has taken place. This is referred to as
- a. Ex-Post
 - b. Ex-Ante
 - c. Stock
 - d. Flow

37. Net Domestic Product (NDP) is
- (a) Gross Domestic Product minus foreigners' income
 - (b) Gross Domestic Product minus depreciation
 - (c) Gross Domestic Product minus taxes
 - (d) Gross Domestic Product minus subsidies
38. One measure used in measuring standard of living is
- (a) Capital-labour ratio
 - (b) Per capita income
 - (c) Price index
 - (d) GDP deflator
39. An economic model stated as $Y = C + I + G$ is
- a) an open economy without government activity
 - b) a closed economy with government activity
 - c) a closed economy without government activity
 - d) an open economy
40. An injection in the form of increase in government expenditure would lead to in national income
- a) increase
 - b) decrease
 - c) constant
 - d) leakage
41. An inflationary gap occurs when aggregate expenditure
- a) exceeds underemployment
 - b) exceeds national income
 - c) exceeds full employment level of output
 - d) is less than full employment level of output
42. A situation when the unemployment rate is equal to the natural rate of unemployment is known as
- a) equilibrium
 - b) full employment
 - c) underemployment
 - d) optimum unemployment
43. An inflationary Gap can be closed through
- a) Poling markets
 - b) expansionary fiscal policy
 - c) expansionary monetary policy
 - d) contraction fiscal policy

44. The type of unemployment which is referred to as search and wait unemployment can also be called
- a) structural
 - b) cyclical
 - c) seasonal
 - d) frictional
45. Which of the following is not a function of Money
- a) medium of exchange
 - b) measure of value
 - c) store of value
 - d) generally acceptability
46. Which of the following is not one of the good qualities of money
- a) durable
 - b) store of value
 - c) stability
 - d) portability
47. Which of the following is not a motive for holding money according to Keynes
- a) Precautionary motive
 - b) Investment motive
 - c) transactions motive
 - d) speculative motive
48. Supply of money (M_1) is narrowly defined as
- a) the amount of money outside banks and demand deposits with banks
 - b) the amount of money in circulation outside the banking system only
 - c) the amount of money the government is given out to the public.
 - d) the amount of money supplied by commercial banks to the public.
49. Given the demand for money, if the supply of money increases, there will be
- (a) Excess supply of money
 - (b) Excess demand of money
 - (c) Demand for money will not change
 - (d) Supply of money will not change
50. Supply of money curve is
- (a) Vertically sloped in interest rate – real balances space
 - (b) Positively sloped in interest rate – real balances space
 - (c) Negatively sloped in interest rate – real balances space
 - (d) Horizontally sloped in interest rate – real balances space

Section B
(Answer any two [2] questions from this section)

QUESTION 1

Suppose an economy is represented by the following equations. The values are in billions of cedis.

$$C = 2000 + 0.8Y_d$$

$$T = 200 + 0.2Y$$

$$I_0 = 1300$$

$$G_0 = 1200$$

$$X_0 = 1000$$

$$M = 500 + 0.2Y$$

$$Y_d = Y - T$$

Where C = Consumption Function, T = Tax Function, I_0 = Investment expenditure, G_0 = Government Expenditure, $(X-M)$ = Net Exports and Y_d = Disposable Income.

Required:

- a. What is the meaning of the ₦2000 billion in the Consumption function?
[3 marks]
- b. Derive the aggregate expenditure function.
[6 marks]
- c. Compute the equilibrium income.
[3 marks]
- d. Show that in equilibrium injections are equal leakages.
[5 marks]
- e. What is the equilibrium tax revenue?
[2 marks]
- f. Determine the state of government budget and explain your answer.
[3 marks]
- g. Calculate the net exports for this economy. Explain your answer.
[3 marks]

(Total 25 marks)

QUESTION 2

A. Explain any four (4) reasons why Gross Domestic Product estimates are important to a nation. (10 marks)

B. Explain the difference between:

- (i) GDP at market prices and GDP at factor cost (5 marks)
- (ii) GNP and GDP. (5 marks)
- (ii) Nominal GDP and Real GDP (5 marks)

(Total 25 marks)

QUESTION 3

Assume the money market is initially in equilibrium and the Central Bank engages in open market sales of its own government's securities in the open market.

- a) Illustrate the effect of this policy activity on the money market with the aid of a diagram(s). (7 marks)
- a. Explain the adjustment process toward the new equilibrium interest rate on your graph. (6 marks)
- b. Will bond prices be higher or will they be lower at the new equilibrium rate of interest? Explain your answer. (6 marks)
- c. What effect will you expect this interest rate change to have upon levels
 - i) Investment spending (2 marks)
 - ii) Aggregate expenditure (2 marks)
 - iii) GDP? (2 marks)

(Total 25 marks)

QUESTION 4

Suppose you have won the 787- NLA Lottery of ₵296,500 and deposited the win with a commercial bank. This bank keeps a reserve ratio of 10 percent.

Assuming no cash drain from the banking system and no initial excess reserves answer the following questions below.

- a) Determine the extent to which the Bank can safely increase money supply or create credit because of your deposit. (7 marks)
- b) If the Bank of Ghana were to increase the reserve ratio to 12.5 percent calculate the credit the bank can create with your win. (6 marks)
- c) Explain any three factor that can limit or enhance the ability of the bank to create credit. (12 marks)

(Total 25 marks)