



CENTRAL UNIVERSITY

FAITH • INTEGRITY • EXCELLENCE

2019/2020 END OF FIRST SEMESTER EXAMINATIONS

FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

ECON 101: INTRODUCTION TO ECONOMICS I

(LEVEL 100)

NOVEMBER, 2019.

Time Allowed: 2 Hours

Instructions:

1. Answer ALL questions in Section A and any TWO (2) Questions from Section B
2. All solutions must be presented in the answer booklet

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THE INVIGILATOR**

**Name of Examiners: Dr. Anthony AMOAH, George HUGHES and Rev. Godson
AHIABOR**

SECTION A: OBJECTIVE TEST (50 marks)

Answer all questions in this section in the answer booklet provided

1. The problem of choice between the various uses of resources arises because
 - a. resources are scarce
 - b. resources could be put to different uses
 - c. resources have alternative uses
 - d. resources are scarce and have alternative uses

2. If toothbrushes are complement to toothpastes, a fall in the price of toothpaste will
 - a. increase the demand for toothpaste
 - b. leave the demand for tea unchanged
 - c. decrease the demand for toothpaste
 - d. increase the demand for toothbrushes

3. A good has economic value when it
 - a. possesses utility and infinitely available
 - b. possesses utility and relatively scarce
 - c. is very useful for the existence hunmanity .
 - d. satisfies a need needs of people

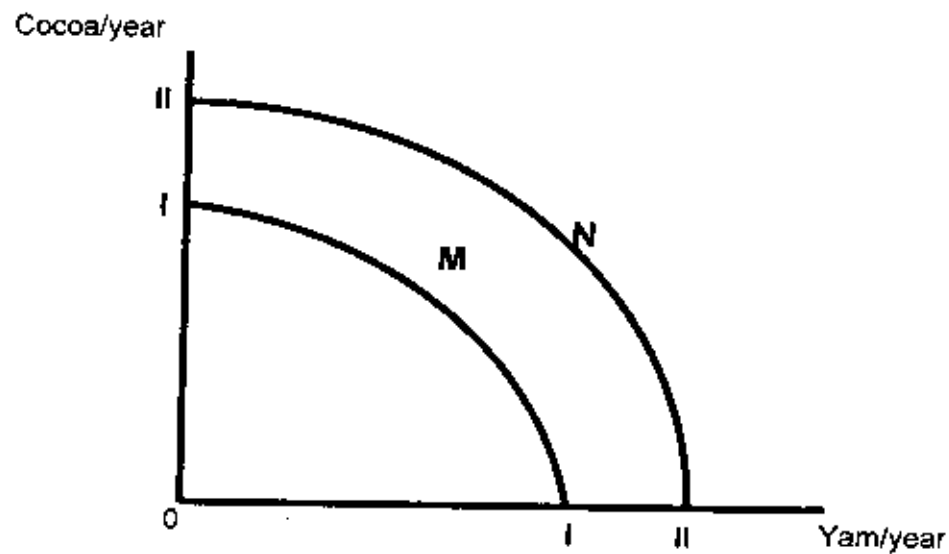
4. Production Possibility Frontier depicts:
 - a. Efficient distribution of goods and services given inputs and technology
 - b. Maximum combination of two goods given inputs and technology.
 - c. Input and output relationships holding one input constant.
 - d. A production function in the shortrun.

5. Points outside a production possibility curve are _____ in the _____
 - I. Attainable/Short run
 - II. Unattainable/Short run
 - III. Attainable/Long run
 - a. I and II only
 - b. II and III only
 - c. I and III only
 - d. II only

6. The opportunity cost of a specialized resource which can be used in only one production process is _____.
- a. The cost of what it produced
 - b. The monetary cost of using the resource
 - c. Zero
 - d. Negative
7. Production efficiency is achieved:
- a. If resources are reallocated among the production of goods and services such that the output of one good can be increased without decreasing the output of other goods.
 - b. If there is no waste in the production process.
 - c. If resources are reallocated among the production of goods and services such that the output of one good can be increased only by increasing the output of the other good.
 - d. If resources are reallocated among the production of goods and services such that the output of one good can be increased only by reducing the output of the other good.
8. In a competitive market which of the following best relates to the term market price?
- a. it remains stable for a long period of time
 - b. it is fixed by the forces of demand and supply
 - c. it is always fixed at where excess demand exists
 - d. it is always fixed at where excess supply exists

9.

Figure 1



In the Figure 1 above are production-possibilities curves I and II. What can be deduced from the diagram?

- a. Point M represents a more efficient point than N on curve II.
 - b. Point N represents the most efficient point
 - c. Curve II represents a more efficient situation than curve I.
 - d. Curve II represents an economic situation in which there are more economic resources and/or improved technology than that existed for curve I.
10. A bowed-out or concave shaped of the production-possibility curve indicates:
- a. Decreasing opportunity costs.
 - b. Constant opportunity costs.
 - c. Increasing opportunity costs.
 - d. Zero opportunity costs
11. In a free and unregulated competitive economy:
- a. Wants are communicated to producers by the purchase orders of producers
 - b. Sellers use market survey instrument to determine what and how much to produce.
 - c. Wants of buyers are communicated to sellers through the determination of prices in markets.
 - d. There are no surpluses or shortages

12. Goods are in competitive demand if _____

- I. They are substitutes
 - II. They are jointly produced
 - III. Demand for one and price of the other varies directly.
 - IV. Demand for one and price of the other varies inversely.
-
- a. I and II only
 - b. I and III only
 - c. II and III only
 - d. II and IV only

13. If a good is a normal good, an increase in income will:

- a. Increase quantity demanded
- b. Reduce quantity demanded
- c. Decrease demand
- d. Increase demand

14. Which answer best explains the following statement? "An increase in income increased quantity supplied."

- a. Producers behave according to the law of supply, which says that income and supply are positively related.
- b. If the good is an inferior good and income increases, spending on the good will increase, inducing firms to increase quantity supplied.
- c. If the good is an inferior good and income increases, spending on the good will decrease, but quantity supplied will increase.
- d. As income increases, demand increases if the good is a normal good, causing market price and quantity supplied to rise.

15. The Ghana Medical Council believes that the price elasticity of demand for sugar is 0.3. Suppose the government influenced by the findings that link sugar consumption and diabetes were to impose a tax on sugar that raises its price by 20% what effect would this have on consumption of sugar?

- a. The quantity consumed will increase by 0.3 percent.
- b. The quantity consumed will decrease by 6 percent.
- c. The quantity consumed will increase by 15 percent.
- d. The quantity consumed will increase by 45 percent

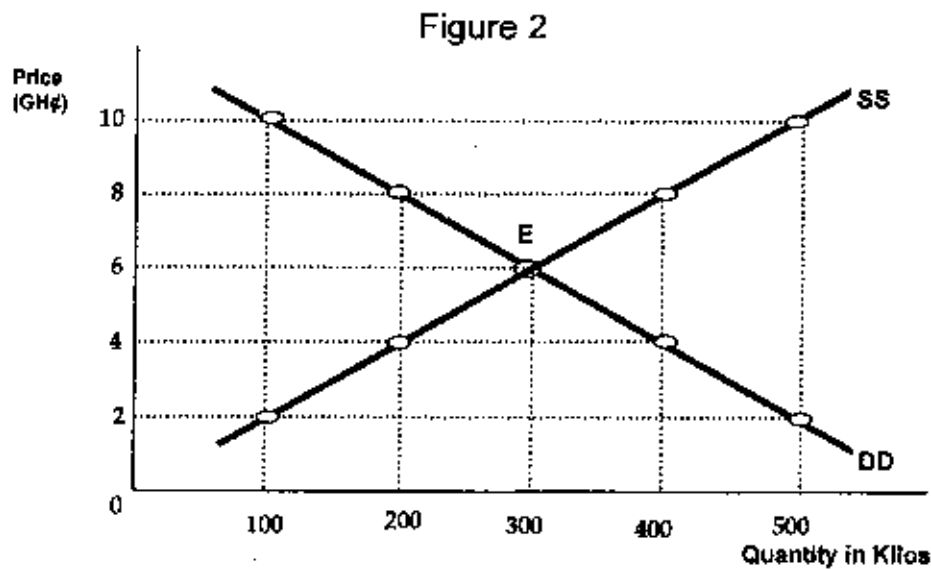
16. A fall in the price of a commodity whose demand curve is a rectangular hyperbola causes total revenue of the sellers to _____.

- a. Remain unchanged
- b. Either increase or falls
- c. Increase
- d. Decrease

17. Which of the following elasticities measures a shift in a curve rather than a movement along a curve?

- a. Price elasticity of supply
- b. Own price elasticity of demand
- c. Income elasticity of demand
- d. Elasticity of substitution

Use the Figure 2 below to answer questions 18 - 19



18. Determine the equilibrium price and quantity in Figure 2.

- a. Gh¢8, 400 kilos
- b. Gh¢4, 200 kilos
- c. Gh¢6, 300 kilos
- d. Gh¢2, 100 kilos

19. In Figure 1 at what price does the market has excess demand or shortage of 200 units of the good?

- a. Gh¢8.
- b. Gh¢6.
- c. Gh¢4.
- d. Gh¢2.

20. Which of the following influences people's buying plans but does not shift the demand curve when it changes?

- a. Income.
- b. Advertisement.
- c. The price of the good.
- d. The price of related goods

21. A rise in income which causes consumers to demand less is the case of

- a. an inferior good.
- b. a normal good.
- c. substitutes.
- d. complements.

22. The demand for colgate toothpaste and pepsodent toothpaste is

- a. A derived demand
- b. A composite demand
- c. A competitive demand
- d. None of the above

23. Supply of a commodity is influenced by the

- a. Expectation of future prices
- b. Objective of the firm
- c. Cost of production
- d. A demand for an inferior good

24. A minimum price regulation fixes price

- a. Below the equilibrium
- b. Above the equilibrium
- c. Near the equilibrium
- d. At the equilibrium

25. In a price-quantity demanded space, a perfectly own price inelastic demand curve would be

- a. downward sloping
- b. horizontal
- c. vertical
- d. upward sloping

26. Which of the following will be protected if the government fixes price below the equilibrium?

- a. producers
- b. retailers
- c. wholesalers
- d. consumers

27. The price elasticity of demand is indicated by the ratio of

- a. price changes to quantity changes
- b. change in quantity demanded to change in price
- c. percentage change in quantity demanded to percentage change in price
- d. percentage change in price to percentage change in quantity demanded

28. A determinant of demand that does not shift the demand curve is

- a. expectations about future prices
- b. the price of the good itself
- c. the prices of other goods
- d. Marketing strategies.

29. Which of the following events would cause the production-possibilities curve to shift outward?

- a. The economy grows.
- b. A new, strong plastic is developed for use in building houses.
- c. More women enter the labor force.
- d. All of the above would cause such a shift.

30. In a market economy, when there is a shortage in a market a firm has an incentive to:

- a. Raise prices.
- b. Lower prices.
- c. Raise production.
- d. None of the above

31. The opportunity cost of installing a traffic light at the First-light intersection is:

- a. Positive, since it will reduce accidents.
- b. The cost of the traffic light plus the cost of savings from a reduction in the number of accidents.
- c. The time lost by drivers who approach the intersection when the light is red.
- d. The best possible alternative bundle of other goods and/or services that must be forgone in order to build and install the traffic light.

32. The absolute slope of the production-possibility curve provides information about:

- a. The growth of the economy.
- b. Technological change in the economy.
- c. Opportunity costs in the economy.
- d. Technical change.

33. Market-supply and market-demand curves are similar in that both:

- a. Involve the willingness and ability of a supplier to sell a product or service.
- b. Involve the willingness and ability of a buyer to buy a product or service.
- c. Have price on the y-axis and quantity on the x-axis.
- d. Can be derived by adding vertically all of the curves of the individuals in the market.

Use the Table below to answer questions 34 to 38.

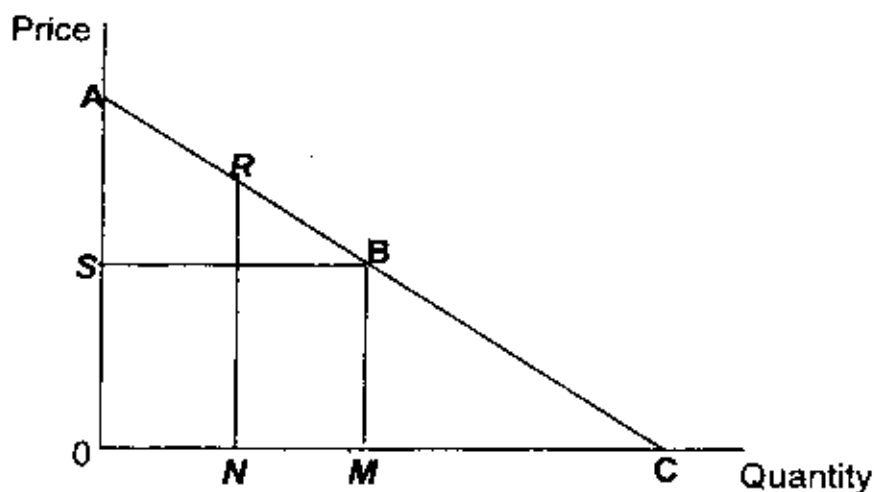
Suppose you have the following item listed in order of importance beginning from the top.

Textbooks	¢100 000
Stationery	50 000
Air Conditioners	50 000
Classroom Furniture	40 000
School Bus	60 000
Building of additional theatres	150 000
Campus Decoration	20 000
Computers	100 000

34. What is the economic name of the list you have made?
- preference order list
 - buying list
 - scale of preference
 - shopping list
35. If you have ¢100 000 to spend, what would you spend it on?
- Computers
 - Textbooks
 - Stationery and air conditioners
 - Classroom furniture and school bus
36. What would be the opportunity cost of the item(s) you purchased with the ¢100,000?
- Computers
 - Textbooks
 - Stationery and air conditioners
 - Classroom furniture and school bus
37. If you had ¢150 000 instead, what would you spend it on?
- Textbooks and Computers
 - building of lecture theatre annex
 - Textbooks and Stationery
 - Classroom furniture and school

38. What would be the opportunity cost of the item(s) you purchased with the 150,000?
- Textbooks and Computers
 - air conditioners and building of lecture theatre annex
 - Stationery and computers
 - air conditioners, classroom furniture and school bus

Use the Demand curve below to answer questions 39 to 54



39. What is the expected value of own price elasticity (E_d) at point B ?
- $E_d = 1$
 - $E_d > 1$
 - $E_d < 1$
 - $E_d = 0$
40. At point C , E_d equals _____
- infinity
 - zero
 - one
 - inelastic
41. At what point is own price elasticity perfectly price elastic?
- A
 - B
 - C
 - R

42. What is the value of coefficient of own price elasticity at point R ?

- a. $\frac{MC}{OM}$
- b. $\frac{NC}{ON}$
- c. $\frac{AB}{BC}$
- d. $\frac{ON}{NC}$

43. Given a demand curve $Qd = 200 - 4P$, what is the price elasticity when price is equal to ₦20?

- (a) -4
- (b) $-2/3$
- (c) -1
- (d) 0

44. Suppose given your income, you consume only good X and currently your marginal utility for good X is greater than the marginal significance of price or marginal utility of price for good X what will be your reaction as a rational consumer?

- a. reduce consumption of good X
- b. increase consumption of good X
- c. maintain consumption of good X
- d. will be indifferent about the consumption of good X

45. What law or principle accounts for the behaviour of the marginal products?

- a. the principle of diminishing marginal utility
- b. the principle of diminishing marginal returns to variable proportion
- c. the principle of decreasing returns to scale.
- d. the behaviour of the fixed factor

Table 3 below is Production Table. Use the information in it to answer questions 46 to 47.

1	2	3	4	5
CAPITAL	LABOUR UNITS	TOTAL PRODUCT OF LABOUR (TP _L)	AVERAGE PRODUCT OF LABOUR (AP _L)	MARGINAL PRODUCT OF LABOUR (MP _L)
1	0	0	-	-
1	1	10	10	10
1	2	24	12	14
1	3	39	13	15
1	4	52	13	13
1	5	X	12.2	Y
1	6	66	11	5
1	7	66	9.4	0
1	8	62	7.5	-4

46. What production period does Table 3 belong to?
- Long run
 - Short run
 - Mid run
 - Intermediate period
47. Calculate the values for X and Y.
- 12, 61
 - 9, 61
 - 61, 12
 - 61, 9
48. At what level of employment of factors (Capital and Labour) does the principle begin to operate?
- 1, 2
 - 1, 3
 - 1, 4
 - 1, 5
49. Why does the short run marginal cost curve eventually increase for the typical firm?
- diseconomies of scale
 - minimum efficient scale
 - the law of diminishing returns to variable proportion
 - the law of decreasing returns to scale.

50. If the price of labour or some variable resource increased, the
- a. AVC curve would shift downward
 - b. AFC curve would shift upward
 - c. AFC curve would shift downward
 - d. MC curve would shift upward

SECTION B (40 marks)

(Answer TWO questions from this section)

Question 1

The Table 1 below shows the utility derived by Wishwell from the consumption of pineapples.

Quantity of pineapples	Total Utility	Marginal Utility
1	8	
2	14	
3	18	
4	20	
5	20	
6	18	

Use Table 1 to answer the question 1:

- a) Calculate the marginal utilities of Wishwell. (5 marks)
- b) Identify and state the economic law that explains the behaviour of the marginal utilities of Wishwell. (5 marks)
- c) Explain why Wishwell will not consume beyond four (4) units of pineapples. (5 marks)
- d) Use the behavior of the marginal utilities you have calculated in question (1a) to explain why the normal demand curve is negatively. (6 marks)

(Total 25 marks)