CENTRAL UNIVERSITY

FAITH · INTEGRITY · EXCELLENCE

2018/2019 END OF SECOND SEMESTER EXAMINATIONS

FACULTY OF ARTS AND SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS

ECON 102: INTRODUCTION TO ECONOMICS II

(LEVEL 100)-FEBRUARY COHORT

INSTRUCTIONS:

1. All the rules of examination in Central University apply.

2. Using the answer booklet, Answer all Questions in Section A. In Section B, Answer Question one and any other One Question.

3. Time Allowed: **2 Hours**

Name of Examiner: Rev. Godson Ahiabor

INTRODUCTION TO ECONOMICS II

1. An inflationary gap occurs when aggregate expenditure exceeds ………...
(a) underemployment (b) national income
(c) full employment level of output   (d) inflation.

2. 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 employment

3. The accelerator principle indicates that net investment takes place only when ………… is increasing
(a) consumption   (b) savings   (c) exports   (d) output

4. The alternate increase or decrease in the level of economic activities in a century are a period of time is known as ………………..
(a) economic growth   (b) fluctuations   (c) business cycle
(d) stagnation

5. When the level of economic activities in a country gets to the highest point or level on the growth path is referred to as
(a) Trough   (b) peak   (c) expansion   (d) economic growth

6. Which of the following is not a function of Money
(a) medium of exchange   (b) measure of valve   (c) store of valve
(d) general acceptability

7. Which of the following is not one of the good qualities of money
(a) durable   (b) store of value   (c) stability   (d) portability

8. Which of the following is not a motive for holding money
(a) precautionary   (b) Demand for food   (c) transactionary
(d) speculative

9. Supply of money is
(a) The amount of money in circulation
(b) The amount of money in circulation
(c) The amount of money the government is given out.
(d) The amount of money in circulation outside the banking system

10. Which of the following is regarded as the liquid of all assets
(a) cash   (b) I horses   (c) cheques   (d) treasury bills

11. Which institution in Ghana is responsible for the issuing and redemption of currencies
(a) commercial Banks (b) central bank   (c) insurance companies
(d) stock exchange

12). According to the Keynesian model of the money market, the supply of money
   a. depends on the interest rate.
   b. is chosen by the central bank.
   c. varies with the price level.
   d. varies with income.

1

13."Lender of last resort" means that the central bank
   a. has to lend money to failing banks.
   b. should lend money to individuals if their bankruptcy would threaten the banking system.
   c. should lend money to banks that are suffering short-term liquidity shortages.
   d. should lend money to pay for government deficits.

14) According to the quantity theory of money, the quantity of money determines the
   a. interest rate.
   b. level of real output.
   c. price level.
   d. level of employment.

15). The quantity theory of money implies that if the money stock were to double, the price level would
   a. fall by one half.
   b. rise, but only slightly.
   c. also double.
   d. be unchanged.

16). The most important determinant of any multiplier in the Keynesian model is
   a. the level of planned investment.
   b. the level of unemployment.
   c. themarginal propensity to consume.
   d. the level of excess demand

17). The quantity theory assumes that
   a. velocity is constant.
   b. income is constant.
   c. prices are constant.
   d. transactions are constant.

18). The period between a business cycle peak and the subsequent trough is called
   a. a recession.
   b. a complete cycle.
   c. an expansion.
   d. a change in economic trend.

19 Money Market is a market for
   a. The sale of money
   b. Short term finances
   c. The amount of money the government is given out.
   d. The money available in the bank

20.Which of the following is regarded as cash
   a. currency notes and coins
   b. houses
   c. cheques
   d. treasury bills

2

21. Which of the following equations shows equilibrium national income in an open economy?
   a. AE = C + I
   b. AE = C + I + G
   c. AE = C + I + G + X + M
   d. AE = C + I + G + NX

22. Average Propensity Save is equal to
   a. C/Y
   b. $\Delta C / \Delta Y$
   c. S/Y
   d. $\Delta S / \Delta Y$

23 Which of the following is a leakage of spending?
   a. net taxes
   b. consumption
   c. investment
   d. net national product

24 Which of the following equations depicts injections
   a. J = I + G + X
   b. L = S + T + M
   c. Y = C + S + T
   d. AE = C + I + G + NX

25   A fall in taxation

   a. raises equilibrium national income
   b. lowers equilibrium national income
   c. equates national output with AE curve
   d. equates NNP and GNP

26   A rise in import
   a. raises equilibrium national income
   b. lowers equilibrium national income
   c. equates national output with AE curve
   d. equates NNP and GNP

27   A rise in investment
   a. raises equilibrium national income
   b. lowers equilibrium national income
   c. equates national output with AE curve
   d. equates NNP and GNP

28   A fall in government expenditure
   a. raises equilibrium national income
   b. lowers equilibrium national income
   c. equates national output with AE curve
   d. equates NNP and GNP

3

29   An increase in government expenditure
    a. shifts AE function upward
    b. shifts AE function downward
    c. shifts AS function aside
    d. leaves AE function unaltered

30   A fall in injections causes the AE curve to
    a. remain unchanged
    b. shift to the left
    c. shift upwards
    d. shift downwards

31   An increase in leakages will cause AE function to
    a. shift upward
    b. shift downward
    c. falls along the 45° line
    d. rises along the 45° line

32   Average Propensity to Consume is equal to
    a. C/Y
    b. $\Delta C/\Delta Y$
    c. S/Y
    d. $\Delta S/\Delta Y$

33   Given that the MPC is 0.8, calculate the autonomous investment multiplier
    a. 2
    b. 3
    c. 6
    d. 5

34   Which of the following is a macro policy?

    a.   Fiscal policy
    b.   Monetary policy
    c.   Exchange rate policy
    d.   All of the above

35   Full employment occurs when
    a. actual output exceeds potential output
    b. actual output is less than potential output
    c. actual output is equal to potential output
    d. actual output and potential rise together

36   Inflationary gap occurs when
    a. actual output exceeds potential output
    b. actual output is less than potential output
    c. actual output is equal to potential output
    d. actual output and potential rise together

4

37   There is a recessionary gap when
      a. actual output exceeds potential output
      b. actual output is less than potential output
      c. actual output is equal to potential output
      d. actual output and potential rise together

38   When there is an inflationary gap, contractionary fiscal policy
      a. shifts AE = Y identity upward
      b. shifts AE = Y identity downward
      c. shifts AE = Y identity away from the origin
      d. leaves AE = Y identity unaltered

39   When there is a recessionary gap, expansionary monetary policy
      a. shifts AE = Y identity upward
      b. shifts AE = Y identity downward
      c. shifts AE = Y identity away from the origin
      d. leaves AE = Y identity unaltered

40   Under what circumstances will GDP exceed GNP?
      a. When Net Factor Income (NFI) is positive
      b. When Net Factor Income (NFI) is equal to zero
      c. When Net Factor Income (NFI) is negative
      d. When taxes are more than subsidies

41 A fall in taxation
   a. raises equilibrium national income
   b. lowers equilibrium national income
   c. equates national output with AE curve
   d. equates NNP and GNP

42   An increase in leakages will cause AE function to

      a. shift upward
      b. shift downward
      c. falls along the 45° line
      d. rises along the 45° line

43 In Keynesian analysis, demand for money is also referred to as

      a. Liquidity preference
      b. Supply of money
      c.   Quantity demanded for money
      d. Real money balances

 44. Which of the following is not a motive for holding money according to Keynes

      a. Transactionary motive
      b. Precautionary motive
      c. Speculative motive
      d. Money motive

45. Purchase of raw materials can be described as a

    a. Transactions demand for money
    b. Precautionary demand for money
    c. Speculative demand for money
    d. Money motive

46. Money supply is narrowly defined as

    a. M_1
    b. M_2
    c. M_3
    d. M_4

47. Which of the following can be considered a limitation of the multiplier

    a. planning to increase employment
    b. to analyze the effects of export price fluctuations on national income
    c. to determine the effects of changes in government expenditure on income
    d. constant marginal propensity to consume

48 Which of the following governmental expenditures are <u>not</u> included in gross domestic product?
    a. The construction of federal buildings
    b. Social Security payments
    c. Salaries for senators
    d. Purchases of new defense weapons

49 There is a recessionary gap when
    a. Actual output exceeds potential output
    b. Actual output is less than potential output
    c. Actual output is equal to potential output
    d. Actual output and potential rise together

49 An increase in the per capita income results in
    a. a decline in the GNP
    b. a rise in the living standards of individual households
    c. a decline in the living standards of households
    d. a decline in the economic welfare of individual households

50. Which of the following problems is not common to all three approaches to national income accounting
    a. changing prices of goods and services
    b. depreciation
    c. multiple counting
    d. fringe benefits

51. To account for the usage of capital in production of goods and services, the value that is subtracted from GDP is called............
    a. Taxes
    b. Inflation
    c. Net Factor Income
    d. Depreciation

50   During the batter trade, which of these commodities was not used
      a. beads
      b. shells
      c. cattle
      d. bonds

51   The following are functions of money, except
      a. durability
      b. medium of exchange
      c. measure of value
      d. store of value

52   The following are features of money, except
      a. Unit of account
      b. Homogenous
      c. Portable
      d. Generally acceptable

53   The following relationships are inverse, except
      a. investment spending and interest rate
      b. savings and interest rate
      c. consumption spending and savings
      d. MPC and MPS

54   The slope of the consumption function for a given economy is given by
      a. average propensity to save
      b. marginal propensity to save
      c. average propensity to consume
      d. marginal propensity to consume

55   Which of the following is not considered as consumption expenditure?
      a. An increase in the quantity of an individual's bags
      b. acquisition of a new television set
      c. the construction of a house which will be occupied by its owner
      d. purchase of consumable goods

56   As disposable income increases,
      a. both consumption and saving decrease
      b. both consumption and saving increase
      c. consumption rises and savings fall
      d. saving rises and consumption falls

57   To avoid double-counting, national income statisticians deal with
      a. intermediate goods and services
      b. potential output
      c. final goods and services
      d. actual output

The economic situation of a country provides the data below:

Consumption GH¢ 100 million

Investment GH¢ 150 million

Government Expenditure GH¢ 200 million

Indirect taxes GH¢40 million

Subsidies   GH¢ 30 million

Import taxes GH¢170 million

Export taxes GH¢200 million

Population GH¢ 20 million.

Output of foreigners within/ in Ghana GH¢ 180 million.

Output of nationals abroad GH¢200 million

Depreciation GH¢60 million.

1. Calculate the following:

(i)   Gross Domestic Product at market prices (4 marks)
(ii)   Gross National Product   (3 marks)
(iii)   Net National Product   (2 marks)
(iv)   National Income   (3 marks)
(v)   Per Capital Income   (2 marks)
(vi)   Net Taxation   (2 marks)
(vii)   Net Property Income from Abroad   (2 marks)
(viii) Net Exports   (2 marks)

2) a) Define Money?(4 marks)
    b) List four qualities of money.(4 marks)
    c) Explain the functions of money.(8 marks)
    d) Explain two problems of barter system of trade.(4 marks)

3) a) What is Inflation(4 marks)
    b) Explain Demand Pull and Cost Push Inflation (8 marks)
    c) Explain four effects of inflation (8 marks)