CENTRAL UNIVERSITY

FAITH · INTEGRITY · EXCELLENCE

2021/2022 RESIT 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**.

Lecturer: Paragon POMEYIE

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 ptoduction
   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

2

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

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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

8

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)