

CENTRAL UNIVERSITY



FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

SECOND SEMESTER EXAMINATION – 2022/2023

COURSE CODE: ECON 102 - INTRODUCTION TO ECONOMICS II

LEVEL 200

SESSIONS: MORNING/EVENING/WEEKEND

DURATION: 2 HOURS

STUDENT ID No. ~~XXXXXXXXXX~~

INSTRUCTIONS:

- (i) Answer ALL questions from Sections A and any TWO (2) Questions from Section B
- (ii) All Answers must be provided on the Answer Sheet

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Name of Lecturers: Paragon POMEYIE and Kofi KORLE

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:

$$\begin{aligned}
 Y &= C + I \\
 C &= 250 + 0.6Y \\
 I &= 500 \\
 Dep &= 100
 \end{aligned}$$

$$\begin{aligned}
 250 &= 10.4Y + 50 \\
 \frac{200 + 150}{0.4} &= \frac{0.6Y}{0.4}
 \end{aligned}$$

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 $C = 4000 + 0.75Y^d$. Use it to answer question 18 to 21

18. What is the complementary saving function?

- a) $S = 6000 + 0.75 Y^d$
- b) $S = 4000 + 0.75 Y^d$
- c) $S = -4000 + 0.25Y^d$
- d) $S = 4000 + 0.25Y^d$

19. Given your answer in question 18 which part of the saving function depicts the marginal propensity to save?

- a) 4000
- b) -4000
- c) 0.25
- d) 0.75

20. What is the income induced saving?

- a) $0.25 Y^d$
- b) 0.25
- c) $0.75 Y^d$
- d) 0.75

21. The 4000 in the consumption function is termed as

- a) Saving
- b) Autonomous savings
- c) Autonomous 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 hypothetical data in the Table below to answer questions 27 to 30

1	2	3	4	5
Real GDP	Consumption Expenditure	Saving	Investment	Aggregate Expenditure (C + I)
430	420		20	
450	435		20	
470	450		20	
490	465		20	
510	480		20	

27. What is saving when real GDP equals 430?

- A) 20
- B) -10
- C) 10
- D) -20

28. What is the equilibrium real GDP?

- A) 430
- B) 450
- C) 470
- D) 510

29. What is the value of the unplanned inventory investment at real GDP of 470?

- A) 20
- B) -20
- C) 0
- D) -470

30. The Table captures expenditure totals for

- A) a three sector economy
- B) a two sector economy
- C) a four sector economy
- D) any of the above

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, services of lecturers are 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 is/are likely to occur

- i. High Inflation
 - ii. Unemployment
 - iii. External benefits
 - iv. Depreciating Exchange rate
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- a) i only
 - b) i and ii only
 - c) i , ii and iii only
 - d) i, ii and iv only

35. An increase in oil price 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 assumed.....
- (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. What is the equilibrium tax revenue? [2 marks]
- e. Show that in equilibrium injections are equal leakages. [5 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

Suppose an economy has a recessionary gap. The money market of this economy is in equilibrium with negatively sloped demand for money curve and vertical supply of money curve. Assume the Central Bank of this economy increases money supply. Use this information to answer Question 3 (a) to 3 (d).

a. Illustrate the effect of this policy activity on the money market with the aid of a diagram(s). (7 marks)

b. Explain the adjustment process toward the new equilibrium interest rate on your graph. (6 marks)

c. Will bond prices be higher or will they be lower at the new equilibrium rate of interest? Explain your answer. (6 marks)

d. 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 Planet Photo Studio in Hohoe deposited ₵100,000 with a commercial bank. This bank keeps a reserve ratio or cash ratio of 12.5 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 this deposit. (7 marks)

b) If the Bank of Ghana were to increase the reserve ratio to 20 percent calculate the credit the bank can create with the deposit of ₵100 000. (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)