



CENTRAL UNIVERSITY COLLEGE
LIBRARY

CENTRAL UNIVERSITY COLLEGE

END OF SEMESTER EXAMINATION: 2014/2015

**FACULTY OF ARTS AND SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS**

ECON 202 (3 CREDITS)

**PRINCIPLES OF ECONOMICS 2
LEVEL 2000**

JULY, 2015

DURATION: 2 HOURS

STUDENT ID

No.....

INSTRUCTIONS

ANSWER ALL QUESTIONS IN SECTION A AND ONE QUESTION EACH IN SECTIONS B AND C

**DO NOT TURN OVER THIS PAGE UNTIL YOU HAVE BEEN TOLD TO DO SO
BY THE INVIGILATOR**

LECTURER: Paragon POMEYIE

CENTRAL UNIVERSITY COLLEGE
LIBRARY

SECTION A: OBJECTIVE TEST – 50 marks
Answer all questions in this section

1. If in an economy gross domestic product increases precautionary demand for money
 - a. increases
 - b. decreases
 - c. fluctuates
 - d. remains constant

2. When bond prices are increasing it is an indication that the interest rate is
 - a. decreasing
 - b. increasing
 - c. constant
 - d. unaffected

3. The following are qualities of a good tax system except
 - a. economy
 - b. convenience
 - c. equity
 - d. affordable

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

5. The 45° line is also referred to as
 - a. aggregate demand equals aggregate supply identity
 - b. aggregate demand equals aggregate consumption identity
 - c. aggregate demand equals aggregate output identity
 - d. gross output equals net output identity

6. Propensity to Save is equal to
 - a. $\frac{\Delta Yd}{Yd}$
 - b. $\frac{\Delta Yd}{Yd}$
 - c. $\frac{\Delta Yd}{Yd}$
 - d. $\frac{\Delta Yd}{Yd}$

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

8. An appreciation of the exchange rate that increases domestic import expenditure
- a. raises equilibrium national income
 - b. lowers equilibrium national income
 - c. equates national output with AE curve
 - d. equates NNP and GNP
9. An increase in business confidence that affects investment expenditure
- a. raises equilibrium national income
 - b. lowers equilibrium national income
 - c. equates national output with AE curve
 - d. equates NNP and GNP
10. An expansionary fiscal policy
- a. shifts AE function upward
 - b. shifts AE function downward
 - c. shifts AS function aside
 - d. leaves AE function unaltered
11. A financial market involved in the mobilization of short term funds is known as
- a. money market
 - b. capital market
 - c. stock market
 - d. bonds market
12. Given that the MPC is 0.75, calculate the autonomous investment multiplier in a close economy without government.
- a. 2
 - b. 3
 - c. 4
 - d. 5
13. If the expenditure multiplier in a closed economy without government activities equals 5, what is the MPC in this economy?
- a. 0.25
 - b. 0.20
 - c. 0.75
 - d. 0.80

Use the information below to answer questions 14 - 16.

In an economy at zero disposable income consumption is ₦1200 million. The marginal propensity to save in this economy is 0.25.

14. What is the consumption function for this economy?
- $C = \text{₱}1200 + 0.25Y_d$
 - $C = \text{₱}1200 + 0.75Y_d$
 - $C = \text{₱}0 + 0.75Y_d$
 - $C = -\text{₱}1200 + 25Y_d$
15. If $Y_d = 6000$ million, what is consumption expenditure in this economy?
- ₱6000 million
 - ₱5700 million
 - ₱7200 million
 - ₱5200 million
16. What is saving in this economy at $Y_d = 6000$ million?
- ₱1200
 - ₱300
 - ₱1200
 - ₱300
17. An increase in minimum wages unmatched by high productivity leads to
- demand pull inflation
 - cost push inflation
 - imported inflation
 - creeping inflation
18. Full employment occurs when
- actual output exceeds potential output
 - actual output is less than potential output
 - actual output is equal to potential output
 - actual output and potential rise together
19. Inflationary gap occurs when
- actual output exceeds potential output
 - actual output is less than potential output
 - actual output is equal to potential output
 - actual output and potential rise together
20. To close a recessionary gap, the central bank must use
- contractionary monetary policy
 - contractionary fiscal policy
 - expansionary monetary policy
 - expansionary fiscal policy
21. In the Keynesian aggregate expenditure – real output model for the determination of equilibrium output, the price level is assumed to be
- zero
 - constant
 - rising
 - declining

22. As disposable income increases, average propensity to save
- increases
 - decreases
 - fluctuates
 - remains constant
23. Personal Income is an example of tax.
- indirect
 - direct
 - value added
 - sales
24. A tax system in which the tax rate increases as income increases is
- proportional
 - regressive
 - progressive
 - flat
25. The investment needed to replace worn out capital in an economy is known as
- gross investment
 - net investment
 - replacement investment
 - stock investment
26. If desired AE equals actual output, unplanned inventory investment is
- positive
 - negative
 - zero
 - increasing
27. In Keynesian analysis, demand for money is also referred to as
- liquidity preference
 - supply of money
 - quantity demanded of money
 - real money balances
28. A firm's demand for money to buy fuel to run its generator during expected light off can be described as
- asset demand for money
 - transactions demand for money
 - precautionary demand for money
 - speculative demand for money

29. The relationships between gross domestic product (GDP) and demand for money can be described as
- inverse
 - direct
 - equidistant
 - discrete
30. When someone decides on the mixture of financial assets to hold he/she is making _____
- asset decision
 - portfolio decision
 - portomanto monetary decision
 - capital investment decision
31. The demand for money curve is negatively sloped because of
- transactions demand
 - precautionary demand
 - speculative demand
 - None of the above
32. Money supply is narrowly defined as
- M_1
 - M_2
 - M_3
 - M_4
33. If a person's nominal income increases by 15% while price level increases by 20%, the person's real income
- increases by 5%
 - increases by 15%
 - decreases by 5%
 - decreases by 20%
34. If the average level of nominal income is GH¢ 42,000 and the price level index is 164, the average real income would be about
- GH¢ 68,880
 - GH¢ 13,636
 - GH¢ 25,610
 - GH¢ 27,823
35. If an economy's output is below the potential output, demand-pull inflation may result in
- increasing price level and rising employment
 - falling real output and unemployment
 - increasing price level and falling employment
 - falling price level and increasing employment

36. Which of the following may cause cost-push inflation?
- rise in input prices
 - rise in output
 - decrease in price of resources
 - increase in unemployment
37. If the Bank of Ghana reduces its monetary policy rate it is expected to
- increase money supply
 - decrease money supply
 - increase the commercial bank' lending rates
 - leave money supply unchanged
38. The money supply in Ghana is determined by the Bank of Ghana and does not change when the interest rate changes; therefore _____ in interest rate real money balances space.
- the supply of money curve is vertical
 - the supply of money curve is horizontal
 - the supply of money curve is upward sloping
 - the supply of money curve is downward sloping
39. The main purpose of the Open Market Operation system of the Bank of Ghana is
- directing the buying and selling of government securities
 - issuing currency
 - adjusting legal reserves among banks
 - monitoring banks to ensure that they do not engage in fraud
40. Which of the following is not a function of commercial bank?
- managing national debt
 - lending money to customers
 - accepting of deposits
 - act as a trustee
41. An *ad-valorem* tax is
- based on the weight of an imported item
 - placed on imported goods
 - a given percentage of the value of goods
 - charged on the earnings of entrepreneurs

Use the hypothetical data in the Table below to answer questions 42 to 44.

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	

42. What is saving when real GDP equals 430?
- 20
 - 10
 - 10
 - 20
43. What is the equilibrium real GDP?
- 430
 - 450
 - 470
 - 510
44. What is the value of the unplanned inventory investment at real GDP of 470?
- 20
 - 20
 - 0
 - 470
45. If real GDP is ₦275 billion, consumption expenditure ₦250 billion, and planned investment ₦30 billion, real GDP:
- will tend to remain constant
 - will tend to increase
 - will tend to decrease
 - equals aggregate expenditures
46. If saving is greater than planned investment in a two sector economy:
- business will be motivated to increase their investments
 - aggregate expenditures will be greater than the real GDP
 - real GDP will be greater than planned investment plus consumption
 - saving will tend to increase

47. When the tax rate at all income levels is constant, it is referred to as
- Progressive tax
 - Regressive tax
 - Proportional tax
 - Specific tax
48. Which of the following does not represent investment as a component of aggregate expenditure?
- an increase in the quantity of shoes on the shelves of a shoe store
 - the construction of a house which will be occupied by its owner
 - the purchase of newly issued shares of stock in SG Bank
 - the construction of a factory building using money borrowed from a bank
49. A refrigerator was produced by its manufacturer in 2012, sold during 2012 to a retailer, and sold by the retailer to a final consumer in 2013. The refrigerator is:
- counted as consumption in 2012
 - counted as investment in 2013
 - counted as investment in 2012
 - not included in the gross national product of 2012
50. The consumer price index was 145 on December 2012 and 167 on December 2013. What is the approximate rate of inflation in 2013?
- 12%
 - 13%
 - 14%
 - 15%

SECTION B (25 marks)

[Answer one (1) question from this section]

QUESTION 1

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

$$C = 2000 + 0.8Y_d$$

$$T = 200 + 0.2Y$$

$$I_0 = 1300$$

$$G_0 = 1200$$

$$(X - M) = 500 - 0.2Y$$

$$Y_d = Y - T$$

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:

- What is the meaning of the 0.2 in the Net Exports function? (3 marks)
- Derive the aggregate expenditure function. (6 marks)
- Compute the equilibrium income. (4 marks)
- What is the equilibrium tax revenue? (4 marks)
- Determine the state of government budget and explain your answer. (4 marks)
- Calculate the net exports for this economy. Explain your answer. (4 marks)

(Total 25 marks)

QUESTION 2

- Explain the concept of Inflation. (5 marks)
- With diagrams show that Inflation whether demand pull or cost-push the source of the inflation is excess demand for goods and services at the current price level. (20 marks)

(Total 25 marks)