



CENTRAL UNIVERSITY

RESIT EXAMINATION: 2017/2018

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

**ECON 210 (3 CREDITS)
ELEMENTS OF ECONOMICS II
LEVEL 200
JUNE, 2018**

DURATION: 2 HOURS

STUDENT ID

No.....

INSTRUCTIONS

ANSWER SECTION A AND ANY 2 IN SECTION B

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BY THE INVIGILATOR**

LECTURER: Paragon Pomeyie

SECTION A: OBJECTIVE TEST – 60 marks
Answer all questions in this section

1. 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

2. If planned investment is greater than saving in a two sector economy,
 - a. aggregate expenditure will exceed aggregate income
 - b. saving will tend to rise
 - c. businesses will tend to double their investments
 - d. saving will tend to fall

3. In the Keynesian theory of employment, an increase in aggregate expenditure leads to
 - a. an increase in the price level and no change in the national output
 - b. a decrease in the price level and no change in the national output
 - c. an increase in national output and no change in the price level
 - d. a decrease in both the price level and national output

4. If consumers expenditure increases from GH 485 million to GH 500 million, while disposable income increases from GH 631 million to GH 656 million, the marginal propensity to save will be
 - a. 0.2
 - b. 0.4
 - c. 0.6
 - d. 0.8

5. Which of the following is not considered as consumption expenditure?
 - a. An increase in the quantity of an individual's hand 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

6. 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

7. A rise in interest rate will result in
 - a. a decline in savings rate
 - b. a fall in investment spending
 - c. increase in demand for money

- d. increase in bond prices
8. It is easy to determine the relative prices of goods and services because money functions as a
- a. Unit of account
 - b. Medium of exchange
 - c. Store of value
 - d. Standard for deferred payment
9. Given that $C = 2500 + 0.75Y_d$, derive the savings function
- a. $S = 2500 + 0.75Y_d$
 - b. $S = -2500 + 0.25Y_d$
 - c. $S = 2500 + 0.25Y_d$
 - d. $S = -2500 + 0.75Y_d$
10. Net National Income (NNP) minus Gross National Product equals
- a. net investment
 - b. net factor income
 - c. depreciation
 - d. Gross Domestic Product
11. 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
17. GDP excludes the following commodities except
- a. existing houses
 - b. trade in existing stocks
 - c. current government purchases
 - d. potential output
18. GDP is best measured in
- a. actual terms
 - b. real terms
 - c. nominal terms
 - d. maximum terms
19. When there is an increase in money supply the interest rate is likely to
- a. rise
 - b. fall
 - c. fluctuate
 - d. stabilise
20. An increase in the per capita income results in

- a. a decline in the GDP
 - 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
21. If in an economy gross domestic product increases precautionary demand for money
- a. increases
 - b. decreases
 - c. fluctuates
 - d. remains constant
22. When bond prices are increasing it is an indication that the interest rate is
- a. decreasing
 - b. increasing
 - c. constant
 - d. unaffected
23. The following are qualities of a good tax system **except**
- a. economy
 - b. convenience
 - c. equity
 - d. affordable
24. 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
25. The following are factors that explain the level of savings **except**
- a. inflation rate
 - b. stock of durable goods on hand
 - c. level of disposable income
 - d. government spending
26. 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
27. Which of the following equations shows equilibrium national income in an open economy?
- a. $AE = C + I + G$

- b. $Y = C + I + G$
- c. $Y = C + I + G + X - M$
- d. $AE = C + I + G + X - M$

28. Average Propensity Save is equal to

- a. C/Y_d
- b. $\Delta C/\Delta Y_d$
- c. S/Y_d
- d. $\Delta S/\Delta Y_d$

29. Which of the following is a leakage of spending?

- a. net taxes
- b. consumption
- c. investment
- d. net national product

30. Which of the following equations depicts injections in an open economy?

- a. $J = I + G + X$
- b. $L = S + T + M$
- c. $Y = C + S + T$
- d. $AE = C + I + G + X - M$

31. 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

32. 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

33. 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

34. 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

35. 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

36. 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

37. Given that the MPC is 0.8, calculate the autonomous investment multiplier in a close economy without government.

- a. 2
- b. 3
- c. 6
- d. 5

38. If the expenditure multiplier in a closed economy without government activities equals 4, 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 39 - 41.

In an economy at zero disposable income consumption is 1200 million. The marginal propensity to consume of this economy is 0.75

39. What is the saving function for this economy?

- a. $S = 1200 + 0.25Y_d$
- b. $S = 1200 + 0.75Y_d$
- c. $S = 0 + 0.75Y_d$
- d. $S = -1200 + 0.25Y_d$

40. If $Y_d = 6000$ million, what is saving in this economy?

- a. 250 million
- b. 300 million
- c. 450 million
- d. 500 million

41. What is consumption expenditure in this economy at $Y_d = 6000$ million?
- 4700
 - 5700
 - 6700
 - 7700
42. 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
43. 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
44. To close a recessionary gap, the central bank must use
- contractionary monetary policy
 - contractionary fiscal policy
 - expansionary monetary policy
 - expansionary fiscal policy
45. 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
46. Personal Income tax is an example of tax.
- indirect
 - direct
 - value added
 - sales
47. A tax system in which the tax rate increases as income increases is
- proportional
 - regressive
 - progressive
 - flat

48. If desired AE equals actual output, unplanned inventory investment is
- positive
 - negative
 - zero
 - increasing
49. In Keynesian analysis, demand for money is also referred to as
- liquidity preference
 - supply of money
 - quantity demanded for money
 - real money balances
50. A firm's demand for money to buy spare parts to fix expected breakdown of a machine can be described as a
- transactions demand for money
 - precautionary demand for money
 - speculative demand for money
 - money motive
51. Which of the following relationships best describes that between interest rate and total demand for money?
- inverse
 - direct
 - equidistant
 - discrete
52. When someone decides on the mixture of financial assets to hold he is making
- asset decision
 - portfolio decision
 - monetary decision
 - capital investment decision
53. The stock of money in an economy at any point in time is referred to as the
- supply of money
 - demand for money
 - quantity supplied of money
 - quantity demanded for money

54. If a person's nominal income increases by 25% while price level increases by 15%, the person's real income
- increases by 35%
 - increases by 10%
 - decreases by 10%
 - decreases by 35%
55. 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 employment
 - increasing price level and falling employment
 - falling price level increasing employment
56. Which of the following may cause cost-push inflation?
- rise in input prices
 - rise in output
 - decrease in price of resources
 - increase in unemployment
57. If the Bank of Ghana's decrease in the prime rate is expected to
- increase money supply
 - decrease money supply
 - increase the commercial bank' lending rates
 - leave money supply unchanged
58. To keep the value of money reasonably constant, the Bank of Ghana
- uses wage control
 - uses price control
 - employs fiscal policy
 - controls the money supply
59. The money supply in Ghana is determined by the Bank of Ghana and does not change when the interest rate changes; therefore
- 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
60. 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

Question 3

- a) Explain the differences between a direct tax and an indirect tax. *(4 marks)*

 - b) Explain the following:
 - i. advalorem tax
 - ii. specific tax *(6 marks)*
 - c) Distinguish between a progressive tax and a proportional tax. *(4marks)*
 - d) Explain two (2) reasons why governments impose taxes. *(6 marks)*
- (Total 20 marks)*

Question 4

- a) What is Monetary Policy? *(3 marks)*
 - b) Explain any three (3) instruments of monetary policy. *(12 marks)*
 - c) Assume the money market is initially in equilibrium and the Central Bank engages in open market sales of its own government's securities in the open market. Illustrate and explain the effect of this policy activity on the on interest rate and real money balances. *(5 marks)*
- (Total 20 marks)*