



**CENTRAL
UNIVERSITY**

FAITH • INTEGRITY • EXCELLENCE

RESIT EXAMINATIONS (JANUARY 2018/19)

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

ECON 211: ELEMENTS OF ECONOMICS II

(LEVEL 200)

Time Allowed: 2 Hours

Instructions:

1. Answer ALL questions in Section A and ANY ONE other questions in Section B.
2. All solutions must be presented in the answer booklet

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

Name of Examiner: Daniel Offei

1. Goods that are ultimately consumed rather than used in the production of another good is called
 - A) Intermediate goods
 - B) Consumables
 - C) Finished goods
 - D) Final goods

2. Total monetary value of all final goods and services produced within the boundaries of the country, say Ghana, is called
 - A) Ghana Domestic Product
 - B) Gross Domestic Product for Ghana
 - C) Gross National Product for Togo
 - D) Togo National product

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

Produce
GH 500

4. The difference between GNP and GDP is called.....
 - A) Depreciation
 - B) Net factor income (NFI)
 - C) Taxes
 - D) Subsidies

5. To account for the usage of worn out 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

6. National income can be calculated by
 - A) Income Approach
 - B) Product Approach
 - C) Expenditure Approach
 - D) All of the above

7. The amount of disposable income determines the level of
- A) Only consumption
 - B) Only Savings
 - C) Both consumption and savings
 - D) Autonomous consumption

Given the savings function as $S = -40 + 0.6Y^d$

8. Derive the consumption function
- A) $C = 60 + 0.4 Y^d$
 - B) $C = 40 + 0.4 Y^d$
 - C) $C = -40 + 0.6Y^d$
 - D) $C = 40 + 0.6Y^d$
9. The negative forty (-40) in the savings function is termed as
- A) Dissaving
 - B) Autonomous savings
 - C) Non-income induced savings
 - D) All of the above
10. Which of the following factors will increase the level of consumption expenditure
- A) Expectation of decrease in level of prices
 - B) Expectation of increase in level of prices
 - C) Low level of disposable income
 - D) High level of prices
11. Spending devoted towards increasing or maintaining the stock of capital is termed as.....
- A) Capital expenditure
 - B) Consumption expenditure
 - C) Investment expenditure
 - D) Government expenditure
12. The summation of Average Propensity to Consume (APC) and Average Propensity to Save (APS) is
- A) Less than one
 - B) Greater the one
 - C) Equal to one
 - D) Equal to zero

13. 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
14. Which of the following is a macro policy?
- A) Fiscal policy
 - B) Monetary policy
 - C) Exchange rate policy
 - D) All of the above
15. The numerical coefficient that is multiplied by a change in any autonomous components of aggregate expenditure to arrive at the resultant change in national income is called.....
- A) the multiplier
 - B) the gradient
 - C) the slope
 - D) none of the above
16. Given a market price of GH¢20 of an item, if the factor cost of that item is GH¢25, what accounted for the difference between the market price and the factor cost?
- A) Subsidy
 - B) Tax
 - C) Inflation
 - D) Deflation
17. Rex was working with Central University College and the conditions of work were not favourable so she left her job. She is now in search of a new job. What type of unemployment is this?
- a. Structural Unemployment
 - b. Frictional Unemployment
 - c. Cyclical Unemployment
 - d. Seasonal Unemployment
18. A fall in taxation, savings and import.....
- A) increases leakages and raises equilibrium national income
 - B) decreases leakages and lowers equilibrium national income
 - C) decreases leakages and raises equilibrium national income
 - D) increases leakages and lowers equilibrium national income

19. In terms of the business cycle, the period from the peak to a trough is referred to as a(n)
- expansion.
 - boom.
 - recession.
 - recovery.
20. The deduction of the fraction of any total income that is consumed from one gives...
- APC
 - MPC
 - APS
 - MPS
21. In the equation $C = a + bY$, which describes the aggregate consumption function, "a" stands for
- The amount of income when consumption is zero.
 - The amount of consumption when income is zero.
 - The marginal propensity to consume.
 - The average consumption level.
22. In a two sector economy, when the MPS increases, the multiplier will
- Increase.
 - Decrease.
 - Remain constant.
 - Either increase or decrease depending on the size of the change in investment
23. The development of money as a medium of exchange has facilitated the expansion of trade because
- No other mediums of exchange are available.
 - Holding money increases people's income.
 - Holding money increases people's wealth.
 - Money eliminates the barter "double coincidence of wants" problem
24. A store of value is
- The ability to buy something today but to defer payment to the future.
 - What sellers generally accept and buyers generally use to pay for goods and services.
 - An asset that can be used to transport purchasing power from one period of time to another
 - A standard unit that provides a consistent way of quoting price.

25. The liquidity property of money is the property that makes money
- A) A good store of value and a good standard of deferred payment.
 - B) A good medium of exchange and a good unit of account.
 - C) A good medium of exchange and a good store of value.
 - D) A good store of value and a good unit of account.
26. When economists speak of the "demand for money", which of the following questions are they asking?
- A) How much income would you like to earn?
 - B) What proportion of your financial assets do you want to hold in non- interest bearing forms
 - C) How much wealth would you like?
 - D) How much cash do you wish you could have?
27. Fiscal policy refers to
- A) The spending and taxing policies used by the government to influence the economy.
 - B) The techniques used by a firm to reduce its tax liability.
 - C) The government's ability to regulate a firm's behaviour in the financial markets.
 - D) The behaviour of the nation's central bank, regarding the nation's money supply.
28. Of the three motives for holding money suggested by Keynes, which did he believe to be the most sensitive to interest rates?
- A) The altruistic motive.
 - B) The speculative motive.
 - C) The precautionary motive.
 - D) The transactions motive.
29. Which of the following correctly describes GDP?
- I. GDP is a flow variable.
 - II. GDP is the value of the production of an individual firm's goods and services.
 - III. GDP can be calculated using the expenditure approach or the income approach.
- A) III only. B) I and III. C) I only. D) II and III.
30. Gross domestic product is the total _____ produced within a country in a given time period.
- A) Amount of final and intermediate goods and services
 - B) Market value of all final and intermediate goods and services
 - C) Market value of all final goods and services
 - D) Market value of all final and intermediate goods and

services plus investment and depreciation

31. A consumption function shows a
- A) Negative (inverse) relationship between consumption expenditure and the price level.
 - B) Positive (direct) relationship between consumption expenditure and the price level.
 - C) Positive (direct) relationship between consumption expenditure and disposable income.
 - D) Negative (inverse) relationship between consumption expenditure and saving.
32. Gross domestic product measured in current GH¢ cedis is
- A) Nominal GDP.
 - B) Current GDP.
 - C) Constant GDP.
 - D) Real GDP.
33. Which of the following would normally NOT be considered as a macroeconomic issue?
- A) Inflation
 - B) Economic growth
 - C) Unemployment
 - D) The price of butter
34. To distinguish between nominal and real figures we must adjust for
- A) Inflation.
 - B) Unemployment.
 - C) A balance of payments deficit.
 - D) Low growth.
35. The diagram that shows the income received and payments made by each sector of the economy is the
- A) Trade cycle diagram.
 - B) Aggregate demand and aggregate supply diagram.
 - C) Phillips curve.
 - D) Circular flow diagram.
36. Given that the $mpc = 0.75$. If the Minister of Finance decides to increase government expenditure by GH¢35 million, what will be the effect on national income?

- A) National income will fall by GH¢46.7 million.
B) National income will rise by GH¢26.25 million.
C) National income will rise by GH¢140 million.
D) National income will rise by GH¢105 million.
37. If Average Propensity to Consume (APC) is 0.8, find the value of Average Propensity to Save (APS).
- 0.8
 - 0.2
 - 1
 - 1.25
38. There will be an upward pressure on interest rate if
- there is an excess demand for money
 - there is a shortage of money supply as against the demand for money
 - there is a decrease in money supply and an increase in the demand for money
 - all of the above
39. There will be an upward pressure on interest rate if
- there is an excess demand for money
 - there is a shortage of money supply as against the demand for money
 - there is a decrease in money supply and an increase in the demand for money
 - all of the above
40. The amount of disposable income determines the level of
- Only consumption
 - Only Savings
 - Both consumption and savings
 - Autonomous consumption
41. Which of the following factors will increase the level of consumption expenditure?
- Expectation of decrease in level of prices
 - Expectation of increase in level of prices
 - Low level of disposable income
 - High level of prices
42. The following are examples of direct taxes except
- Personal income tax
 - Property tax
 - Company tax
 - Value added tax
43. The following are examples of indirect tax except
- Value added tax

- b. Property tax
- c. Custom duties
- d. Excise duties

44. When government actual expenditure exceeds actual government revenue, it leads to
- a. Fiscal surplus
 - b. Budget surplus
 - c. Fiscal deficit
 - d. Equilibrium budget
45. Taxes imposed on incomes of persons or corporations and paid directly are known as
- a. indirect taxes
 - b. Value added tax
 - c. direct taxes
 - d. excise duties
46. Which of the following is not an advantage of direct taxes
- a. they are progressive
 - b. could be used effectively as a fiscal measure
 - c. they are certain hence reliable
 - d. none of the above
47. The amount of money in circulation within the economy is technically defined as
- a. Money supply
 - b. Broad money
 - c. Near money
 - d. Quasi money
48. The demand for money relates
- a. positively to the rate of interest
 - b. Inversely to the rate of interest
 - c. has no relationship with the rate of interest
 - d. none of the above
49. Demand for money that arises because people are uncertain about the payments they might want to or have to make in order to meet unforeseen exigencies is known as
- a. transactionary demand
 - b. speculative demand
 - c. precautionary demand
 - d. all of the above
50. To close an inflationary gap, government will use
- a. an expansionary fiscal policy

- b. a contractionary fiscal policy
- c. an expansion in government spending
- d. all the above

51. The tax rate line for a progressive tax is

- a. positively sloping
- b. negatively sloping
- c. horizontal
- d. vertical

52. A tax which represents a smaller proportion of the taxpayer's income as his income or wealth increases is known as

- a. a progressive tax
- b. a regressive tax
- c. a proportional tax
- d. none of the above

53. Which of the following is **not** a reason why National Income is estimated?

- a. It helps to organize economic data and activities
- b. It helps classify economic activities into segments
- c. It helps to determine the President's consumption pattern
- d. It helps in policy formulation and implementation

54. Investment as a component of aggregate expenditure includes all except

- a. Housing construction
- b. Buying bonds and stocks
- b. Purchase of machinery
- c. Addition to firm's inventory of goods

55. Gross investment is larger than net investment because net investment excludes

- a. Net factor income from abroad
- b. Depreciation
- c. Real interest rate
- d. Net indirect tax

56. In a closed economy with no government,

- a. Consumption equals income plus savings.

- b. Income equals savings plus taxes.
- c. Income equals savings plus consumption
- d. Saving minus income equals consumption.

57. If actual inventory investment turns out to be _____ than firms planned, then _____ investment is _____ than planned investment.

- a. higher; actual; less
- b. lower; actual; greater
- c. lower; planned; greater
- d. higher; actual; greater

58. Based on the terminology used by economists,

- a. Investment represents the purchase of assets such as a mutual fund.
- b. an investment is not something that is used to create value in the future.
- c. investment refers to the creation of capital stock.
- d. firms invest when they sell off their inventories

59. Which of the following will improve the per capita income of a nation?

- a) An increase in the population of given the national income
- b) A decrease in the national income given the population
- c) An increase in the national income given the population
- d) An increase in population over the national income

60. All the following are injections except

- a. Government expenditure
- b. Investment
- c. Import
- d. Export

61. The Gross Domestic Product is the total monetary value of goods and services of the economy in a year

62. The marginal propensity to consume is the slope of the consumption function
63. The sum of the marginal propensity to consume and the marginal propensity to save is 100%
64. A persistent rise in the prices of consumer goods over a period of time is termed inflation
65. Dividing the national income by the total adult population is known as per capita income
66. Government expenditure in a three sector aggregate expenditure function is autonomous
67. If the gross national product is bigger than the gross domestic product, then the net factor income is positive
68. Autonomous consumption is zero if the income of the consumer is zero
69. If autonomous consumption expenditure is 40, then autonomous saving is -40
70. If aggregate demand increases, and the aggregate supply of the economy is in the full employment stage, aggregate output increases
71. Government expenditure, exports and Investments are collectively referred to as injections
72. The speculative demand for money arises out of uncertainty about future interest rates
73. The opportunity cost of holding money is the interest forgone
74. A tax which takes a higher proportion of the lower income earner's income than of the higher income earner's income is known as regressive is a regressive tax
75. The weighted average of all prices of all commodities is know as the GDP deflator
76. Raising of revenue and spending by government is known as monetary policy

77. A persistent rise in the prices of consumer goods over a period of time is termed inflation

78. The sum of the marginal propensity to consume and the marginal propensity to save is 100%

79. Inflation that is caused when aggregate demand exceeds aggregate supply at current prices is known as demand pull inflation

80. The total planned or desired spending in the economy during a period by the various sectors of the economy on newly produced final goods and services is known as autonomous expenditure

SECTION B: ANSWER ANY ONE QUESTION FROM THIS SECTION

QUESTION ONE

(a) What is the difference between the Gross Domestic Product (GDP) and the Gross National Product (GNP)? (5 marks)

(b) Identify and explain four (4) uses of national income. (10 marks)

QUESTION TWO

Outline four (4) economic effects of inflation. (12 marks)

B. Explain how monetary policy can be used to reduce inflation. (8 marks)

QUESTION THREE

- Define investment as a component of aggregate expenditure. (5 marks)
- Explain three (3) factors that influence business investment spending in Ghana. (9 marks)
- Outline two measures that the government of Ghana can take or have taken to increase business investment spending. (6 marks)