



CENTRAL UNIVERSITY

END OF SEMESTER EXAMINATION: 2017/2018

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

**ECON 211 (3 CREDITS)
INTRODUCTION TO ECONOMICS II**

LEVEL 200

9TH JUNE, 2018

DURATION: 2 HOURS

STUDENT ID NO.....

INSTRUCTIONS

ANSWER ALL QUESTIONS IN SECTION A AND ANY TWO (2) QUESTIONS IN SECTION B

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BY THE INVIGILATOR**

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OBJECTIVE TEST (50 Marks)

1. In National Income accounting, goods that are consumed rather than used in the production of other goods are called
 - a) Intermediate goods
 - b) Consumables
 - c) Finished goods
 - d) Final goods

2. National income excludes the effects of
 - a) Wages
 - b) Rent
 - c) Indirect taxes
 - d) Subsidies

3. Total monetary value of all final goods and services produced within the boundaries of a country is called
 - a) National Income
 - b) Gross Domestic Product
 - c) Gross National Product
 - d) Total Domestic Expenditure

4. A firm buys GH¢1000 of kenkey, processes it using GH¢500 of labour into Iced Kenkey. The firm sells the iced kenkey for GH¢2000 making a profit of GH¢500. The extra worth the firm adds to the kenkey is _____
 - a) GH¢500
 - b) GH¢1000
 - c) GH¢2500
 - d) GH¢1500

Use the information below to answer questions 5 to 10

As an economist your firm is considering siting a subsidiary of your company in another country to produce a range of goods. After research conducted on the country you observed that the country's macroeconomic behaviour can be summarized by the following equations:

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

Where Y is the country's GDP, C is consumption expenditure, I is investment expenditure and Dep is depreciation.

5. What is the equilibrium level of GDP?
- a) 1800
 - b) 1500
 - c) 750
 - d) 1875
6. Determine the equilibrium level of consumption.
- a) 1150
 - b) 1500
 - c) 500
 - d) 1375
7. What is the NDP for this economy?
- a) 1775
 - b) 1500
 - c) 1600
 - d) 1000
8. By how much does the capital stock of this economy increase?
- a) 500
 - b) 100
 - c) 400
 - d) 600
9. Find investment expenditure multiplier
- a) 1.6
 - b) 2.5
 - c) 6.1
 - d) 5.2
10. Suppose investment expenditure increases by 50, what is the new level of GDP?
- a) 1500
 - b) 1800
 - c) 1600
 - d) 2000
11. In national income accounting, market price minus indirect tax or plus subsidy gives the _____
- a) Gross Price
 - b) Net Price
 - c) Factor Cost
 - d) Real Cost

12. The difference between GNP and GDP is _____
- Depreciation
 - Net factor income (NFI)
 - Taxes
 - Subsidies
13. _____ measures the monetary value of output in a given period in the prices of that period.
- Nominal GDP
 - Real GDP
 - Weighted GDP
 - GDP deflator
14. Given Nominal GDP to be GH¢200, find the real GDP if the Price Index is 110.
- 1.82
 - 2.20
 - 181.82
 - 220

Use the saving function below to answer question 15 to 19.

Given the savings function as $S = -40 + 0.2Y^d$.

15. Derive consumption function?
- $C = 60 + 0.2 Y^d$
 - $C = 40 + 0.2 Y^d$
 - $C = -40 + 0.8 Y^d$
 - $C = 40 + 0.8 Y^d$
16. Given the savings function, what is the marginal propensity to save?
- 0.2
 - 0.8
 - 40
 - 40
17. What is the income induced saving?
- $0.2 Y^d$
 - 0.2
 - $0.8 Y^d$
 - 0.8

18. The negative forty (-40) in the savings function is called _____
- a) Saving
 - b) Autonomous savings
 - c) Non-income induced Consumption
 - d) Autonomous consumption
19. If disposable income (Y^d) is GH¢1000, find the Average Propensity to Save (APS)?
- a) 0.61
 - b) 0.56
 - c) 6.25
 - d) 0.16
20. Which of the following factors will increase the level of consumption expenditure
- a) Expectation of a decrease in the level of prices
 - b) Expectation of an increase in the level of prices
 - c) Increased income tax rate
 - d) High level of prices
21. In national income accounting, spending devoted towards increasing or maintaining the nation's stock of capital is termed as _____
- a) Capital expenditure
 - b) Consumption expenditure
 - c) Investment expenditure
 - d) Government expenditure
22. What accounts for the difference between gross investment and net investment?
- a) Taxes
 - b) Capital consumption allowance
 - c) Net Factor Income from Abroad
 - d) Indirect taxes less subsidies
23. 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
24. Which of the following is a macro policy?
- a) Fiscal policy
 - b) Monetary policy
 - c) Exchange rate policy
 - d) All of the above

25. All other things being equal, an increase in the level of disposable income (Y^d) in a Keynesian model of income determination _____
- a) decreases consumption by the amount of increase in the disposable income
 - b) increases consumption by the amount of increase in the disposable income
 - c) increases the level of consumption by the amount of increase in the disposable income times the marginal propensity to consume
 - d) increases the level of consumption by the amount of increase in the disposable income times the Aggregate expenditure multiplier
26. The numerical coefficient that is multiplied by a change in any autonomous components of aggregate expenditure to obtain the resultant change in national income is called _____
- a) the multiplier
 - b) the gradient
 - c) the slope
 - d) the magnifier

Use the information given below to answer question 27 to 30.

If Ghana Commercial Bank's total deposits amounted to GH¢2,408.6 million in 2017. With a 10% cash ratio:

27. What was the value of the reserve multiplier in 2017?
- a) 10%
 - b) 1000%
 - c) 10
 - d) 1000
28. Determine the cash/required reserve
- a. GH ¢240.86million
 - b. GH ¢2408.6million
 - c. GH ¢21677.4million
 - d. GH ¢24086million
29. Calculate the excess reserve in 2017
- a. GH ¢240.86million
 - b. GH ¢2167.74million
 - c. GH ¢21677.4million
 - d. GH ¢24086million

30. Compute the change in demand deposits in 2017
- GH ₵240.86million
 - GH ₵216.74million
 - GH ₵21677.4million
 - GH ₵24086million
31. Under government budgeting which of the following is not an item of capital expenditure?
- Building of roads and bridges
 - Building of a badge to generate electricity
 - Building of dams for irrigation
 - Payment of interest on government loans
32. Which of the following is a liability of a commercial bank?
- Deposits
 - Money at call
 - Loans to customers
 - Overdrafts
33. A written instruction to pay a named person a sum of money from a current account is called
- legal tender
 - bills of exchange
 - cheque
 - credit card
34. The drawer of a cheque is the
- person who is to be paid
 - person who takes the cheque to the bank
 - persons who writes out the cheque
 - bank official who certifies the payment
35. A stock exchange is a market that
- Deals with the exchange of commodities
 - Deals with the purchase and sale of securities
 - Exchange treasury bills for bills of exchange
 - Sells foreign exchange
36. Which of the following is not part of the four interactive macroeconomic markets of the economy?
- Goods market
 - Macro market
 - Money market
 - Labour market

37. Oil price increases on the global market that affect the macro economy and results in a decline in the Gross Domestic Product is a
- Macro Policy
 - Micro Policy
 - External Factor
 - Output Variable
38. Net Domestic Product (NDP) is
- Gross Domestic Product minus foreigners' income
 - Gross Domestic Product minus depreciation
 - Gross Domestic Product minus taxes
 - Gross Domestic Product minus subsidies
39. A situation in which the unemployment rate is equal to the natural rate of unemployment is known as
- equilibrium
 - full employment
 - underemployment
 - optimum unemployment
40. An inflationary Gap can be closed through
- Increasing investment
 - expansionary fiscal policy
 - expansionary monetary policy
 - contractionary fiscal policy
41. The type of unemployment which is referred to as search and wait unemployment can also be called
- structural
 - cyclical
 - seasonal
 - frictional
42. Given the demand for money, if the supply of money increases, there will be
- Excess supply of money
 - Excess demand of money
 - Demand for money will not change
 - Supply of money will not change
43. Which of the following is not a motive for holding money according to Keynes
- precautionary
 - demand for food
 - transactionary
 - speculative

44. Which one of the following statements is true?
- Bond prices and the interest rate are directly related.
 - A lower interest rate raises the opportunity cost of holding money
 - The supply of money is directly related to the interest rate
 - The total demand for money is inversely related to interest rate
45. To keep the value of money fairly stable, the central bank
- uses price and wage controls
 - employs fiscal policy
 - controls the money supply
 - buys stock
46. There is an asset demand for money because money is _____
- medium of exchange
 - a measure of value
 - a store of value
 - standard for deferred payment
47. An increase in the interest rate would increase
- the opportunity cost of holding money
 - the transaction demand for money
 - the asset demand for money
 - the price of bonds
48. When cash is deposited in a demand deposit account in a commercial bank, there is
- a decrease in the money supply
 - an increase in the money supply
 - no change in the composition of the money supply
 - a change in the composition of the money supply
49. If the cash ratio or the required reserve ratio is 12.5%, the value of the reserve or money multiplier would be
- 5
 - 6
 - 7
 - 8
50. "The Bank of Ghana decreases The Policy Rate for the Third Time This Year". Graphic newspaper headline reads. The headline indicates that the Bank of Ghana is most likely trying to
- reduce inflationary pressures in the economy
 - increase the Bank of Ghana's assets and liabilities
 - reduce the cost of credit and stimulate the economy
 - decrease the value of the cedi.

SECTION B
(Answer any TWO [2] questions in this section)
(50 marks)

Question 1

a. The following are values of macroeconomic variables for an economy in 2010.

Consumption (C)	= 1400 million
Investment (I)	= 1200 million
Government Expenditure (G)	= 1500 million
Exports	= 1150 million
Import	= 1230 million
Depreciation	= 150 million
Net property income	= -1200 million
Population	= 150 million
Indirect Business Tax	= 180 million
Subsidies	= 120 million
Price index	= 150

Required:

- i. Calculate Gross Domestic Expenditure in market prices (GDE_M).
- ii. Calculate Gross National Expenditure in market prices (GNE_M).
- iii. Calculate Net National Expenditure in market prices (NNE_M).
- iv. National Income at factor cost (NNP_F).
- v. Determine the real NNP_F . *(10 marks)*

- b. Explain three (3) disadvantages of this method of estimating national income. *(9 marks)*
- c. Identify any three (3) uses of national income estimates. *(6 marks)*
- (Total 25 marks)*

Question 2

- a) Distinguish between a progressive tax and a proportional tax. *(7 marks)*
 - b) Explain three (3) reasons why government imposes taxes. *(9 marks)*
 - c) Explain three (3) qualities of a good tax system. *(9 marks)*
- (Total 25 marks)*

Question 3

- a) Distinguish between monetary policy and fiscal policy. *(7 marks)*
 - b) Identify and explain any two (2) instruments of monetary policy. *(6 marks)*
 - c) Explain any two (2) tools/instruments of fiscal policy. *(6 marks)*
 - d) Explain any two (2) traditional functions of a Central Bank of a nation. *(6 marks)*
- (Total 25 marks)*

Question 4

a. In a hypothetical economy is given as:

$$C = a + bY_d \quad a > 0 \text{ and } 0 < b < 1$$

Where C = aggregate consumption expenditure and
 Y_d = aggregate disposal income

Required:

- i. Explain the meaning of "a"? (3 marks)
- ii. Define "b" (3 marks)
- iii. What is the meaning of "bY_d"? (3 marks)
- iv. Derive the complementary saving function. (4 marks)

b. Examine any four (4) factors that influence aggregate level of consumption expenditure in an economy.

(12 marks)

(Total 25 marks)