

THE INSTITUTE OF CHARTERED ACCOUNTANTS (GHANA)
MICRO-ECONOMICS QUESTION PAPER
NOVEMBER 2014

SECTION A: (MICRO-ECONOMICS)

NB: answer only three (3) questions in this section

QUESTION 1

The table below shows the various combinations of yam and maize that a hypothetical country can produce per farming season given her resources and employing the best technologies available. Use the information in the table to answer the questions that follow:

Production Alternatives	Yam (in tons)	Maize (in tons)
A	0	50
B	1	48
C	2	44
D	3	38
E	4	30
F	5	20
G	6	0

- {a} What is the economic name of the Table? **(2 marks)**
- {b} What is the opportunity cost to the country for producing:
- i. 1 ton of yam **(2 marks)**
 - ii. 3 tons of yam **(2 marks)**
 - iii. 50 tons of maize **(2 marks)**
 - iv. 20 tons of maize **(2 marks)**
- {c} Supposed in the previous season the country settled for alternative D. In the current season because of increased demand for maize the country plans to increase the production of maize by 10 tons:
- i. What production alternative has the country settled for in the current season? Explain your answer. **(3 marks)**
 - ii. What is the opportunity cost for the country's current choice? Explain your

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answer.

(3 marks)

- {d} Explain the behaviour of the opportunity cost of yam in terms of maize as the country moves from alternative A through alternative D to alternative G.

(4 marks)

QUESTION 2

- {a} State the law of diminishing returns to variable proportions.

(3 marks)

- {b} Identify **two (2)** elements of the law of diminishing returns to variable proportions.

(2 marks)

- {c} With the aid of a marginal product curve explain the various phases of the law of diminishing returns to variable proportions and their implications for the total product curve.

(15 marks)

(Total: 20 marks)

QUESTION 3

A profit-maximising monopolist has the following demand and cost conditions:

$$P = 100 - Q$$

$$MC = AC = 10$$

$$MR = 100 - 2Q$$

Where P is market price in Ghana Cedis, Q is quantity traded in kilos, AC is average cost, MC is marginal cost and MR is marginal revenue.

- {a} On a graph sheet draw accurately the monopolist's demand curve, marginal revenue curve and marginal cost curve.

(7 marks)

- {b} Calculate the monopolist's profit-maximising output and price, and indicate them on

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your diagram in (a).

(7 marks)

{c} At the monopolist's profit-maximising output found in part (b), calculate each of the following:

- i.** Total revenue **(2 marks)**
- ii.** Total cost **(2 marks)**
- iii.** Profit **(2 marks)**

(Total: 20 marks)

QUESTION 4

Illustrate each of the following events with supply or demand shifts in the market for locally produced cotton textiles or normal goods.

- {a} The economy experiences a recession. **(5 marks)**
- {b} Textile makers go on strike. **(5 marks)**
- {c} A high tariff is imposed on imported textile. **(5 marks)**
- {d} Cotton farmers experience a bad harvest. **(5 marks)**

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SECTION B: (MACRO-ECONOMICS)

NB: Answer only two (2) questions in this section

QUESTION 5

The Figure below is an Aggregate Expenditure – Aggregate Output diagram for a hypothetical economy.

Where: AE is the aggregate expenditure line.
 $Y = AE$ is the 45 degree line.
 Z is the full employment output line

Use the figure to answer the following questions:

- {a} Define Aggregate Expenditure as used in this context. **(3 marks)**
- {b} Explain the aggregate expenditure model depicted by the diagram. **(3 marks)**
- {c} Identify and explain the equilibrium real output of this economy. **(4 marks)**
- {d} Show whether this economy has an Inflationary Gap or a Recessionary Gap.

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(4 marks)

- {e} If in this economy the marginal propensity to consume (MPC) is 0.8 and the marginal propensity to tax (t) is 0.25 what is the value of the multiplier:

(6 marks)

(Total: 20 marks)

QUESTION 6

Suppose you are an accountant of a multinational firm and your firm is thinking of building a manufacturing plant either in Ghana or in Nigeria. Explain how the following factors would affect your firm's decision of which country to invest in:

- {a} Ghana has a higher rate of growth of per capital national income compared to Nigeria.

(5 marks)

- {b} Nigeria has a higher level of investment subsidies for business investment compared to Ghana.

(5 marks)

- {c} The government of Ghana has announced that they are going to pursue contractionary fiscal macroeconomic policy via decrease in government spending whereas, in Nigeria, the government has announced it is going to implement expansionary fiscal macroeconomic policy via increase in government spending.

(5 marks)

- {d} The dollar equivalent of minimum wage in Ghana is higher than the dollar equivalent of minimum wage in Nigeria.

(5 marks)

(Total: 20 marks)

QUESTION 7

- {a} Distinguish between the following concepts:

- {i} Gross domestic product (GDP) and net domestic product (NDP).

(4 marks)

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{ii} Nominal GDP and Real GDP.

(4 marks)

{b} Outline any **four (4)** uses of national income data.

(12 marks)

(Total: 20 marks)