

**THE INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



**MAY 2010 EXAMINATIONS
(PROFESSIONAL)**

PART 1

**ECONOMICS
(Paper 1.3)**

Attempt five (5) Questions

TIME ALLOWED:

Reading & Planning	-	15 Minutes
Working	-	3 Hours

SECTION A (MICROECONOMICS)

NB: Answer only three (3) Questions in this Section

QUESTION 1

- a) What is a Production Possibility Curve? *(4 marks)*
- b) With the aid of a Production Possibility Curve illustrate the following concepts:
- i) Opportunity Cost *(6 marks)*
- ii) Economic Growth *(6 marks)*
- c) Why is economics considered as a social science? *(4 marks)*

(Total: 20 marks)

QUESTION 2

- a) State the law of diminishing returns to variable proportions. *(4 marks)*
- b) Identify **three (3)** elements of the law of diminishing returns to variable proportions. *(6 marks)*
- c) With the aid of a marginal product curve explain the various phases of the law of variable proportions. *(10 marks)*

(Total:20 marks)

QUESTION 3

- a) Explain why the market demand curve for a normal good is negatively sloped. *(6 marks)*
- b) Using appropriate illustration, explain how a market surplus for a normal good will lead to a change in the market equilibrium price and quantity. *(7 marks)*
- c) With the aid of an appropriate diagram, explain how the equilibrium price and quantity trade of a normal good change with the introduction of a per unit tax on the suppliers. *(7 marks)*

(Total: 20 marks)

QUESTION 4

The following table shows the costs and revenue situations in Thelore Manufacturing Company. Use it to answer the questions that follow:

Output (Ton)	Price per unit (¢)	Total Revenue (¢)	Total Fixed Cost (¢)	Total Variable Cost (¢)	Total Cost (¢)	Total Profit (¢)
0	-		50		50	
1	20		50		60	
2	20		50		70	
3	20		50		80	
4	20		50		90	
5	20		50		100	

- a) What production period does the Table depict? Explain *(3 marks)*
- b) Identify the market structure in which Thelore Manufacturing Company is operating. *(3 marks)*
- c) Copy and complete the Table by calculating the following:
- i. the total Revenue at each level of output *(3 marks)*
 - ii. the total Variable cost at each level of output *(3 marks)*
 - iii. the total Profit at each level of output *(3 marks)*
- d) Should Thelore shut down if its current rate of sales averages 5 tons? Explain your answer. *(5 marks)*

(Total: 20 marks)

