

# INSTITUTE OF CHARTERED ACCOUNTANTS (GHANA)



MAY 2011 EXAMINATIONS  
(PROFESSIONAL)

PART 1

ECONOMICS  
(Paper 1.3)

Attempt five (5) Questions

TIME ALLOWED:

Reading & Planning - 15 Minutes  
Workings - 3 Hours

## SECTION A (MICROECONOMICS)

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

### QUESTION 1

- a) State the basic law of demand. (5 marks)
- b) Using the marginal utility approach, explain how a utility-maximising consumer consuming two normal goods X and Y will respond to a fall in the price of good X. (15 marks)

**(Total: 20 marks)**

### QUESTION 2

The following were statements made by four candidates who were studying for ICA examination in Economics.

- (a) Augustine – “An expected price increase of a good has the same effect as an increase in the current price of the good.” (5 marks)
- (b) Peter – “If the price of a good increases, the substitution effect measures the change in quantity demanded for that good which comes about because the good is now relatively expensive compared to its substitutes.” (5 marks)
- (c) Mensah – “If marginal cost is greater than average cost, then average cost must be falling.” (5 marks)
- (d) Kwesi – “A firm in a perfectly competitive industry faces a demand curve which is horizontal at the market price.” (5 marks)

**Required:**

Ascertain whether these statements are **TRUE** or **FALSE** and explain your answer.

**(Total: 20 marks)**

