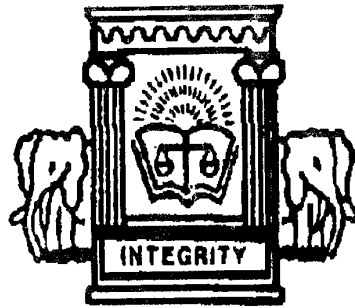


**THE INSTITUTE OF CHARTERED  
ACCOUNTANTS (GHANA)**



**MAY 2012 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 the section**

### QUESTION 1

- (a) Distinguish between a command (planned) economic system and a market economic system. *(5 marks)*
- (b) Explain any **four (4)** features of a market economy. *(9 marks)*
- (c) Outline **two (2)** demerits of a market economic system. *(6 marks)*

**(Total: 20 marks)**

### QUESTION 2

The supply and demand functions for maize farmers are given as  $Q_s = -32 + 10P$  and  $Q_d = 40 - 2P$  respectively where  $Q_s$  is quantity supplied in bags,  $Q_d$  is quantity demanded in bags and  $P$  is the price per bag in Ghana Cedis.

- (a) Determine the equilibrium price and quantity of maize. *(4 marks)*
- (b) As a result of the introduction of a new technology in maize farming, the supply function for maize changes to become  $Q_s = -20 + 10P$ . Demand remains unchanged.
- i. Determine the new equilibrium price and quantity. *(4 marks)*
- ii. Derive the supply and demand table for maize before and after the introduction of the new technology for price ranges 3, 4, 5, 6, 7 and 8. *(6 marks)*
- (c) Suppose government intervenes in the maize market and fixes a minimum price of GHC8 per bag after the introduction of the new technology.
- i. What happens in the maize market? *(2 marks)*
- ii. Give **two (2)** measures that the government can take to deal with the situation created by the minimum price in (c) i. above. *(4 marks)*

**(Total: 20 marks)**

### QUESTION 3

(a) Explain the following economic concepts:

i. Opportunity cost (2 marks)

ii. Normal profit (2 marks)

(b) Yao a young engineer earns GHC9,600 per annum as salary. He has inherited a building which earns him GHC2,000 a year in rent. He also has treasury bills which yield GHC1,000 a year. Yao decides to go into fruit juice production. He resigns from his job, ejects his tenants and converts his building into a factory at a cost of GHC1,000. He discounts his treasury bills to buy a truck at a cost of GHC8,000 to start producing fruit juices. At the end of the year his books tell the following story.

	GHC
Total sales revenue	35,500
Cost of fruits	10,000
Cost of labour	2,000
Water and electricity	4,000

1. Determine the

i. Explicit costs of the factory (6 marks)

ii. Total fixed cost of the factory (3 marks)

2. Calculate the

i. Economic profit or loss of Yao (4 marks)

ii. Should Yao continue to operate? Explain your answer. (3 marks)

**(Total: 20 marks)**

### QUESTION 4

(a) Distinguish between “the short-run” and the long-run” in economics. (4 marks)

(b) With the aid of diagrams show that in a perfectly competitive industry, the typical firm earns only normal profits in the long run.

**(16 marks)**

**(Total: 20marks)**

## SECTION A (MACRO ECONOMICS)

**NB: Answer only two (2) questions in the section**

### QUESTION 5

- (a) What is the difference between nominal national income and real national income? (4 marks)
- (b) The following is an extract from the national income data of a country in 2005. Study the extract and answer the questions that follow:

The agricultural sector in 2005 produced foodstuffs, livestock, coffee and groundnuts worth GHC1,151 million. Manufacturing, construction, mining, water and electricity produced GHC1,035 million. Transport and communication, finance, insurance and government services contributed GHC1,170 million. Farmers received GHC350 million as subsidies while government collected GHC390 million in indirect taxes. GHC150 million worth of capital was estimated to have been used up.

**Required:**

- i. Determined the country's Gross Domestic Product in market prices. (4 marks)
- ii. Calculate the Net Domestic Product at factor cost. (4 marks)
- iii. What method of estimating the national income is used in the extract? (2 marks)
- iv. Explain **two (2)** problems associated with the method in (iii) above. (6 marks)

**(Total: 20 marks)**

### QUESTION 6

- (a) i. List any **eight (8)** sources of government revenue in Ghana. (4 marks)
- ii. Arrange the revenue items listed in (a) i. above under the following headings:
- Direct taxes, Indirect taxes and Non-tax revenue (4 marks)
- (b) What is the difference between a balanced budget and a budget deficit? (3 marks)
- (c) Outline **three (3)** ways of financing the budget deficit. (9 marks)

**(Total: 20 marks)**

### QUESTION 7

(a) Explain the following economic concepts:

i. Demand pull inflation

ii. Cost push inflation

*(8 marks)*

(b) Explain **two (2)** causes each of

i. Demand pull inflation

ii. Cost push inflation

*(12 marks)*

**(Total: 20 marks)**