

SECTION A: (MICROECONOMICS)

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

QUESTION 1

- (a) Explain the concept of equilibrium under demand and supply analysis. *(4 marks)*
- (b) Starting from equilibrium in the market for Milo, explain with the aid of diagrams how the following will affect the equilibrium price and quantity of Milo:
- (i) An increase in the price of cocoa beans *(8 marks)*
- (ii) A decrease in the price of Bournvita. *(8 marks)*

(Total: 20 marks)

QUESTION 2

“A profit-maximising perfect competitor will cease production in the short-run if its average revenue is greater than its average variable cost but less than average total cost”.

- (a) Explain any **three (3)** features of a perfect competitor. *(6 marks)*
- (b) With an appropriate diagram, show whether the statement is true or false. *(14 marks)*

(Total: 20 marks)

QUESTION 3

- (a) Distinguish between **returns to variable proportions** and **returns to scale**. *(8 marks)*
- (b) Explain the following concepts:
- (i) Increasing returns to scale *(4 marks)*
- (ii) Constant returns to scale *(4 marks)*
- (iii) Decreasing returns to scale *(4 marks)*

(Total: 20 marks)

QUESTION 4

(a) Distinguish between:

(i) **A production function** and **production possibilities curve or frontier**.

(4 marks)

(ii) **Private cost** and **Social cost**

(4 marks)

(b) To table below illustrates the various combinations of cloth and food that an economy can produce in a given period of time.

Production Alternatives	Cloth (Bales)	Food (Tons)
A	0	15
B	1	14
C	2	12
D	3	9
E	4	5
F	5	0

Use the information in the table to explain the concepts:

(i) Choice

(6 marks)

(ii) Opportunity cost

(6 marks)

(Total: 20 marks)

SECTION B: (MACROECONOMICS)

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

QUESTION 5

- (a) In a hypothetical economy, the consumption function is given as:

$$C = 100m + 0.75Y_d$$

Where C = aggregate consumption expenditure and

Y_d = aggregate disposal income

m = million of cedis

Required:

- i. What are the economic interpretations of **100m** and **0.75** in the consumption function? **(4 marks)**
- ii. Derive the complementary saving function **(2 marks)**
- iii. If Y_d equals GHC500 million and Investment expenditure (I) = GHC150 million, calculate:
 1. Consumption Expenditure **(2 marks)**
 2. Average propensity to consume **(2 marks)**
 3. Equilibrium Income **(2 marks)**
 4. The expenditure multiplier for this economy **(2 marks)**
- (b) Explain any **three (3)** factors that determine the level of consumption in an economy. **(6 marks)**

(Total: 20 marks)

QUESTION 6

- (a) What is Monetary Policy? **(4 marks)**
- (b) Explain any **four (4)** instruments of Monetary Policy. **(16 marks)**

(Total: 20 marks)

QUESTION 7

- (a) Explain the difference between a Direct Tax and an Indirect Tax. *(4 marks)*
- (b) Explain the following:
- i. Ad-valorem Tax
 - ii. Specific Tax *(6 marks)*
- (c) Distinguish between a Progressive Tax and a Proportional Tax. *(4 marks)*
- (d) Explain **two (2)** reasons why governments impose taxes. *(6 marks)*

(Total: 20 marks)