

SECTION A (MICROECONOMICS)

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

QUESTION 1

- (a) What is a **Giffen** good? *(5 marks)*
- (b) With the aid of indifference curves and budget lines, show that Giffen goods are exceptions to the Law of Demand *(15 marks)*

(Total: 20 marks)

QUESTION 2

- (a) Identify **two (2)** main characteristics of a monopoly. *(4 marks)*
- (b) Using an appropriate short run diagram, explain the mechanism by which a monopolist sets its profit-maximizing price. *(10 marks)*
- (c) With the aid of the diagram drawn to answer (b) define and label the relevant areas for each of the following terms:
- (i) Total Cost
 - (ii) Total Revenue
 - (iii) Profit *(6 marks)*

(Total: 20 marks)

QUESTION 3

- (a) Explain why a manager should choose a method of production that is technically efficient as well as economically efficient. *(10 marks)*
- (b) i. State the law of diminishing returns to variable proportions. *(5 marks)*
- ii. Why is the law important to managers in their production decisions? *(5 marks)*

(Total: 20 marks)

QUESTION 4

The Production function of Modern Styles, a shirt producing firm, is depicted by the Table below. Q represents number of shirts and V the quantity of the variable input used.

Table: Production Schedules of a Firm

Variable Input (V)	Shirts (Q)	Marginal Product	TC	TVC	MC
1	1	-			15.0
2	3	2			7.5
3	6	3			5.0
4	11	5			3.0
5	18	7			2.1
6	24	6			2.5
7	28	4			3.8
8	31	3			5.0
9	33	2			7.5
10	34	1			15.0

Suppose the fixed cost is GHC100.00, and the price of the variable factor is GHC15.00 per unit. The price per shirt is GHC5.00.

- (a) Copy and complete the table by computing the Total Cost (TC) and Total Variable Cost (TVC) at each level of output for Modern Styles. *(5 marks)*
- (b) Determine the profit maximizing level of output for Modern Styles. *(5 marks)*
- (c) Calculate the profit of Modern Styles if the profit maximizing output is sold. *(5 marks)*
- (d) Should Modern Styles shutdown? Explain your answer. *(5 marks)*

(Total: 20 marks)

SECTION B (MACROECONOMICS)

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

QUESTION 5

- (a) Congratulations for being successful at the current promotion. Your prize money is GHC75,000. This was a text message you received on your phone.

Suppose you have deposited your prize money with the Cocoa Bank (CB) in your current account. CB maintains the mandatory cash ratio of 12.5% and any cash that leaves CB returns to it.

Required:

- i. Determine the cash reserves that CB should keep because of your deposit. **(2 marks)**
 - ii. Compute the excess reserves your deposit will generate for CB. **(2 marks)**
 - iii. Calculate the reserve multiplier for CB. **(2 marks)**
 - iv. Determine the total loans that CB can create with your deposit. **(4 marks)**
 - v. Calculate the change in demand deposit your deposit can support for CB. **(4 marks)**
- (b) Explain how the Bank of Ghana can influence the extent to which CB can create loans with your deposit with the following monetary policy tools:
- i. Cash Ratio **(3 marks)**
 - ii. Prime Rate **(3 marks)**

(Total: 20 marks)

QUESTION 6

- (a) “National Product = National Income = National Expenditure” with the aid of a circular flow diagram, explain this identity. **(15 marks)**
- (b) Show the importance of the identity in (a) for the measurement of national income in Ghana. **(5 marks)**

(Total: 20 marks)

QUESTION 7

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

Karen: – Now that the rate of inflation has fallen to 9.5%, I expect the price of goods and services to fall by the same margin.

Kwame: – Karen, have you heard that the Bank of Ghana has reduced its prime rate? I think the Bank of Ghana is implementing expansionary fiscal policy.

Monica: – Kwame, all other things being equal, I believe that the reduction in the prime rate by the Bank of Ghana may enhance the ability of our banks to expand credit to our clients.

Semenyo: – Many people are trying these days to build their own residential houses to avoid paying the higher rental rates landlords and landladies are charging. This will be shown as higher consumption expenditure by households by the national income statistician.

Required:

Ascertain whether these statements are TRUE or FALSE. Explain your answer.

20 marks