

ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
ECONOMICS PAPER FOR MARCH 2021 DIET
QUESTIONS AND MARKING SCHEME

SECTION A: PART I MULTIPLE-CHOICE QUESTIONS (30 Marks)

ATTEMPT ALL QUESTIONS IN THIS SECTION

Write ONLY the alphabet (A, B, C, D or E) that corresponds to the correct option in each of the following questions/statements

1. A set of economic propositions about what is, rather than what ought to be, belongs to
 - A. Economy policy
 - B. Normative economics
 - C. Positive economics
 - D. Informative economics
 - E. Political economics

2. The definition of Economics as “the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses” was given by
 - A. Adam Smith
 - B. David Ricardo
 - C. Lionel Robbins
 - D. Thomas R. Malthus
 - E. Robert Giffen

3. Movement along a demand curve is caused by a change in
 - A. Consumer’s income
 - B. Commodity’s own price
 - C. Consumer’s taste
 - D. Price of a substitute good
 - E. Number of consumers

4. If the price of beef rises from ₦20.00 to ₦23.00 per kilogram, and the quantity demanded falls from 100 kg to 85 kg, then the price elasticity of demand for beef is
 - A. 0
 - B. 1
 - C. 2
 - D. 3
 - E. 4

5. If increase in sales of a product from 5 to 6 units caused average revenue to fall from ₦20 to ₦19, the marginal revenue is
- A. ₦6.00
 - B. ₦11.00
 - C. ₦14.00
 - D. ₦19.00
 - E. ₦20.00
6. Which of the following is **NOT** an assumption of the marginal utility theory?
- A. Consumer rationality
 - B. Constant marginal utility of money
 - C. Diminishing marginal utility
 - D. Utility is measurable
 - E. Utility is qualitative
7. Which of the following is a consumer good?
- A. Insurance
 - B. Jewelry
 - C. Health
 - D. Education
 - E. Transport
8. The price paid for labour services is called
- A. Commission rate
 - B. Profit
 - C. Rent
 - D. Interest
 - E. Salary and wages
9. The cost per unit of output at any given period is the
- A. Average variable cost
 - B. Average fixed cost
 - C. Average total cost
 - D. Marginal cost
 - E. Total fixed cost
10. If an increase in production inputs of a firm causes output to increase in a greater proportion, the firm is said to be experiencing
- A. Increasing returns
 - B. Decreasing returns
 - C. Constant returns to scale

- D. Increasing returns to scale
 - E. Decreasing returns to scale
11. The goal of a firm as an economic agent is to
- A. Maximise utility
 - B. Maximise cost
 - C. Minimise profit
 - D. Minimise revenue
 - E. Maximise profit
12. Which of the following can be deduced from the law of variable proportions when total output is rising?
- A. MP is less than AP
 - B. MP is greater than AP
 - C. MP is equal to AP
 - D. MP is equal to zero
 - E. MP is negative
13. A market situation in which there are many buyers and many sellers of homogenous product is called
- A. Oligopoly
 - B. Perfect competition
 - C. Monopoly
 - D. Imperfect competition
 - E. Monopolistic competition
14. Which of the following exhibits a perfectly price elastic demand curve?
- A. Monopolistically competitive firm
 - B. Perfectly competitive firm
 - C. Monopoly firm
 - D. Oligopoly firm
 - E. Duopoly firm
15. The following are uses of National income estimates, **EXCEPT**
- A. For economic planning
 - B. To determine the inflation rate
 - C. To guide in the formulation of economic policies
 - D. Serve as indices of economic welfare
 - E. Reveal the sectorial growth of the economy

16. In a two-sector circular flow model, goods and services are produced by the
- A. Foreign nations
 - B. Government
 - C. Households
 - D. Firms
 - E. Firms and Government
17. In a simple economic model, if the government expenditure increased by ₦6 million and marginal propensity to save is 0.2, the change in national income will be
- A. ₦4.8 million
 - B. ₦7.5 million
 - C. ₦20 million
 - D. ₦25 million
 - E. ₦30 million
18. Demand for cash balances in order to take advantages of a likely fall in the stock prices is referred to as
- A. Transactions motive
 - B. Precautionary motive
 - C. Speculative motive
 - D. Scarcity motive
 - E. Exceptional motive
19. A system where the value of each and every good is expressed in terms of the other good is referred to as
- A. Open economic system
 - B. Socialist economic system
 - C. Capitalist economic system
 - D. Barter system
 - E. Price system
20. Given an initial deposit of ₦1,000 in the banking system which leads to a total increase in bank deposit of ₦5,000, the required legal cash reserve ratio is
- A. 2%
 - B. 5%
 - C. 20%
 - D. 50%
 - E. 100%

21. Increase in public expenditure over time in West African countries is **NOT** associated with
- A. Rapid population growth
 - B. Public debt servicing
 - C. Increasing urban-rural migration
 - D. Provision of infrastructure
 - E. Banditry and terrorisms
22. The following are tools of contractionary fiscal policy, **EXCEPT**
- A. Reducing government spending
 - B. Increasing income tax rate
 - C. Reducing government transfer payments
 - D. Reducing debt servicing
 - E. Increasing government spending
23. Which of the following is a consumption tax?
- A. Personal income tax
 - B. Petroleum profit tax
 - C. Excise tax
 - D. Value-Added tax
 - E. Capital gain tax
24. Inflation rate in an economy is measured by means of
- A. Consumer price index
 - B. Price mechanism
 - C. Price legislation
 - D. Price discrimination
 - E. Aggregate index
25. The type of unemployment that relates to people with mental and physical disabilities is
- A. Seasonal unemployment
 - B. Frictional unemployment
 - C. Residual unemployment
 - D. Cyclical unemployment
 - E. Structural unemployment

26. The instrument of trade protection which allows the entry of only the specified quantity of foreign goods into a country is
- A. Embargo
 - B. Quota
 - C. Import tariff
 - D. Exchange control
 - E. Subsidy
27. The merchandise trade, services and income account, and unilateral transfers in the balance of payments (BOP) are recorded in the
- A. Current account
 - B. Capital account
 - C. Official reserves
 - D. Exports account
 - E. Imports account
28. The difference between the values of merchandise exports and merchandise imports is called
- A. Terms of trade
 - B. Balance of trade
 - C. Balance of payments
 - D. Import substitutions
 - E. Import duties
29. Which of the following financial institutions is a soft loan window of the World Bank Group?
- A. International Development Association (IDA)
 - B. African Development Bank (AfDB)
 - C. European Investment Bank (EIB)
 - D. International Monetary Fund (IMF)
 - E. Multilateral Investment Guarantee Agency (MIGA)
30. Which of the following is **NOT** an objective of economic planning?
- A. Maximise utilisation of productive resources
 - B. Promote balanced growth
 - C. Attract foreign investments
 - D. Match the available resources with the desired goals
 - E. Widen the gap between the rich and the poor

SECTION A: PART I SHORT ANSWER QUESTIONS (20 Marks)

ATTEMPT ALL QUESTIONS IN THIS SECTION

Write the correct answer the best completes each of the following questions/statements

1. An organised set of relationships, under a set of assumptions, from which a conclusion or a set of conclusions is logically derived is known as
2. The quantity supplied of pens per week is represented by the function; $Q_s = 70 + \frac{1}{2}P$. At a price of ₦8.00, the quantity supplied will be
3. The elasticity of demand that uses the average of two points in calculating the value of its coefficient is known as
4. In the cardinal utility approach of the theory of consumer behaviour, utility is measured in
5. A person who organises, manages, and assumes the risks of a business enterprise is called
6. A group of firms producing similar or identical goods is called
7. The difference between the total revenue and the sum of explicit and implicit costs incurred by a firm for a given output is called
8. A market structure in which demand curve for the firm's output is the market demand curve for the product is called
9. At the output level where a firm's total revenue (TR) is at maximum, the marginal revenue (MR) is
10. The excess of output sales value over the cost of inputs purchased by the firm is known as
11. A functional relationship between consumers' disposable income and planned spending on final goods and services is called
12. The monetary instrument that regulates money supply through the sale or purchase of government securities is known as
13. Money that is backed by law is known as
14. The total outstanding debt obligations or accumulated borrowing of the government within a country is known as

15. The policy of the government that regulates money supply and credit availability in the economy is called
16. Inflation induced by rising aggregate demand is referred to as
17. The exchange rate system in which the exchange rate is determined by the forces of demand and supply is known as
18. The trade restrictive measure whereby importation of some goods is totally prohibited is called
19. The acronym UNCTAD means
20. If the population of a country increases from 40 million in 2010 to 50 million in 2018, the population growth rate is

SECTION B: ATTEMPT ANY FOUR QUESTIONS IN THIS SECTION (50 MARKS)

PART I:

MICROECONOMICS

ATTEMPT TWO QUESTIONS

QUESTION 1

- a. i. What is an 'Economic System'? (1½ Marks)
 - ii. List THREE main functions of an economic system. (3 Marks)
 - b. Explain **FOUR** principal features of the capitalist economy. (8 Marks)
- (Total 12½ Marks)**

QUESTION 2

- a. Explain the concepts of 'Economies of Scale' and 'Diseconomies of scale' using appropriate illustrative diagram. (5 Marks)
 - b. i. What is an Internal economies of scale? (1½ Marks)
 - ii. Identify and explain **THREE** types of internal economies of scale. (6 Marks)
- (Total 12½ Marks)**

QUESTION 3

- a. Explain briefly the concepts of 'Marginal revenue' and 'Marginal cost'.
(3 Marks)
- b. The hypothetical table below gives the demand and cost schedule faced by a given monopolist.

Price (₦)	Quantity (Q)	Total Cost (₦)	Total Revenue (₦)	Marginal Revenue (₦)	Marginal Cost (₦)
7.00	1	8	7	-	-
6.00	2	9	12		
5.00	3	12	15		
4.00	4	20	16		
3.00	5	35	15		
2.00	6	55	12		
1.00	7	77	7		

Required

- i. Complete the above table for the marginal revenue, and marginal cost trends.
(6 Marks)
- ii. Determine the profit - maximising output level and the profit - maximising selling price.
(3¹/₂ Marks)
(Total 12¹/₂ Marks)

SECTION B: PART II:

MACROECONOMICS

ATTEMPT TWO QUESTIONS

QUESTION 4

- a. Assuming an open economy, explain what is an aggregate demand.
(4¹/₂ Marks)
- b. Given a macroeconomic model of an open-economy as $Y = C + I + G + (X - M)$

Where:

Aggregate consumption (C) ~~₦~~65 million + 0.8Y_d
Disposable income (Y_d) Y - T
Lump sum tax (T) ~~₦~~40 million
Aggregate investment (I) ~~₦~~26 million

Government expenditure (G) ~~N~~39 million

Net export ~~N~~15 million

You are required to calculate

- i. The equilibrium national income (4 Marks)
 - ii. The government expenditure multiplier (2 Marks)
 - iii. The change in equilibrium national income, given an additional government expenditure of ~~N~~20 million. (2 Marks)
- (Total 12¹/₂ Marks)**

QUESTION 5

- a. Explain briefly “Development banks” (4¹/₂ Marks)
 - b. Explain **FOUR** main functions of Development banks in your country. (8 Marks)
- (Total 12¹/₂ Marks)**

QUESTION 6

- a.
 - i. Explain **THREE** main objectives of the African Development Bank (AfDB) (4¹/₂ Marks)
 - ii. Identify **TWO** problems affecting the performance of African Development Bank (AfDB) in recent times (2 Marks)
 - iii. State **THREE** main functions of
 - International Monetary Fund (IMF)
 - Organisation of Petroleum Exporting Countries (OPEC)(6 Marks)
- (Total 12¹/₂ Marks)**

SOLUTION TO QUESTIONS

SECTION A: PART I MULTIPLE CHOICE QUESTIONS (30 Marks)

1. C
2. C
3. B
4. B
5. C
6. E
7. B
8. E
9. C
10. D
11. E
12. B
13. B
14. B
15. B
16. D
17. E
18. C
19. D
20. C
21. C
22. E
23. D
24. A
25. C
26. B
27. A
28. B
29. A
30. E

SECTION A: PART II SHORT ANSWER QUESTIONS (20 Marks)

1. Economic model/Economic theory
2. 74
3. Arc price elasticity of demand
4. Utils
5. Entrepreneur
6. An Industry
7. Economic profit
8. Monopoly
9. Zero
10. Profit
11. Consumption function
12. Open Market Operations
13. Legal tender
14. Internal debt
15. Monetary policy
16. Demand-pull inflation
17. Floating/Flexible exchange ratesystem
18. Embargo
19. United Nations Conference on Trade and Development
20. 25%

SECTION B: PART 1: MICROECONOMICS

QUESTION 1

- a. (i) An economic system describes the mechanism by which scarce resources are allocated in society, the nature of the relationship between the individual and society and the role of government in the allocation of resources and the direction of economic activity.

OR

An economic system can be described as a means through which the system of production, resource allocation, distribution and exchange of goods and services are carried out by individuals or group of individuals in a given society. **(1½ Marks)**

(ii) The functions of an economic system are listed as follows:

1. Allocation of Resources
2. Organisation of Production
3. Distribution of Goods and Services
4. Economic Growth and Development
5. Economic Stability

(1 Mark each for any 3 points listed 1 x 3 = 3 Marks)

b. The features of a capitalist economic system are:

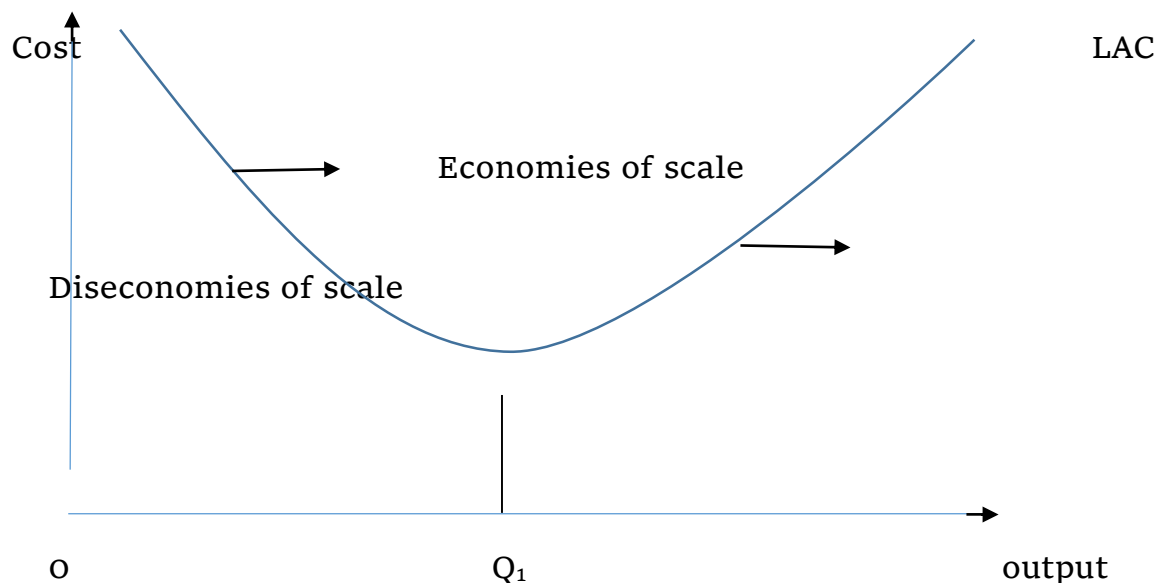
- (i) Private ownership of properties: The system is characterized by private ownership of resources and production outfits.
- (ii) Price mechanism: The forces of demand and supply, which is called price mechanism, determines what to produce, how to produce, and for whom to produce. There is no government intervention.
- (iii) Profit motive: Decisions and activities of producers are guided by profit motive. It is this desire for personal gain that lies behind individual initiative and enterprise.
- (iv) Consumer sovereignty: The producers respond to the demands of the consumers concerning what goods to produce and services to provide.
- (v) Freedom of enterprise: The producers produce variety of goods and services subject to their abilities and training, legal restrictions and existing market conditions. In other words, there is free choice of occupation for an entrepreneur.
- (vi) Competition: The existence of large number of buyers and sellers in the market makes competition one of the core features of the capitalist system.

(2 marks for each of any 4 features mentioned and explained =8 Marks)
(Total 12½ Marks)

QUESTION 2

- a. Economies of scale refers to the cost savings made possible as plant size increases. That is, a firm is said to achieve economies of scale if its long-run average costs decline as it increases the size of its plant. On the other hand, diseconomies of scale refers to the higher unit costs the firm incurs as a result of setting up a larger plant.

Diagrammatically,



As output increases from output level 0 to Q_1 , the average cost decreases and the firm is said to be experiencing economies of scale. Beyond the output level Q_1 , the average cost of production increases as output or plant size increases. This is called diseconomies of scale.

(5 Marks)

- b. (i) Internal Economies of Scale: These are costs reducing advantages that accrue to the firm directly as a result of management and efficiency of the firms operation lead to increase in its level of output. The costs reducing advantages can be through technical, managerial, marketing and financial economies. **(1½ Marks)**
- (ii) Types of internal economies of scale include: Managerial, Technical, Marketing and Financial economies.
1. Managerial economies: Cost reducing advantage derived from specialisation of labour. In large firms, specialists are employed where each concentrate on a particular field of production. Each worker becomes efficient and thus increase productivity of the firm thereby reducing the unit cost of production.

2. Technical economies: Large scale production embraces mass production with the use of modern machinery giving rise to technical economies because overhead costs are spread over a large output. Furthermore, a large firm is able to support its own research and development programme.
3. Marketing economies: Large firms buy their raw materials and other productive inputs in bulk and obtain discount. This amounts to lowering the cost of production and offering their products at lower prices. Sales promotion and advertisement is also employed by large firms which enables them to spread the cost of production over a large output produced.
4. Financial economies: The sources of funding open to large firms are enormous. They can seek for loan from banks at lower rate of interest or offer their shares and stocks to the public through the stock exchange market. All these advantages are not open to small firms; hence large firms have financial economies advantages over the small ones.

(2 Marks for each of any 3 points identified and explained. 2 x 3 = 6 Marks)

(Total 12½ Marks)

QUESTION 3

- a. **Marginal Revenue (MR)**
Marginal revenue is the change in total revenue with respect to a change in quantity sold. That is, it is the change in total revenue that results from the sale of one extra unit of the commodity. It is found by dividing the change in total revenue (ΔTR) by the change in quantity sold (ΔQ)

$$MR = \frac{\Delta TR}{\Delta Q}.$$

(1½ Marks)

Marginal Cost (MC)

Marginal Cost (MC) is change in total cost (TC) as a result of a unit change in output. It is generally defined as the addition to TC resulting from an additional unit of output produced. The marginal cost curve is always in U-shape It is measured as:

$$MC = \frac{\Delta TC}{\Delta Q}.$$

(1½ Marks)

- b. (i) The marginal revenue and marginal cost trends computations using the formulae stated in 'a' above **(3 Marks)**

Price (₦)	Quantity (Q)	Total Cost (₦)	Total Revenue (₦)	Marginal Revenue (₦)	Marginal Cost (₦)
7.00	1	8	7	-	-
6.00	2	9	12	5	1
5.00	3	12	15	3	3
4.00	4	20	16	1	8
3.00	5	35	15	-1	15
2.00	6	55	12	-3	20
1.00	7	77	7	-5	22

- (ii) The profit-maximizing output level is where the MC = MR.
Therefore, using the result in the table, the MC = MR at output level of 3 units. And the maximizing selling price is ₦5.00

(3½ Marks)

(Total 12½ Marks)

QUESTION 4

- a. Aggregate demand also known as aggregate expenditure is the total expenditure on final goods and services in an economy within a specified period of time. Aggregate demand is made up of households' expenditure (C), firms' expenditure (I), government expenditure (G), exports (X) and imports (M). It can be represented in a model as $AD = C + I + G + (X - M)$, where $(X - M)$ is net exports. The aggregate demand does not include expenditure on intermediate goods.

(4½ Marks)

- b. Given the macroeconomic model of an open-economy as $Y = C + I + G + (X - M)$ and the data,

- (i) The equilibrium national income is expressed as

$$Y = C + I + G + (X - M)$$

Substituting the given data, we have

$$\begin{aligned}
 Y &= 65 + 0.8Y_d + 26 + 39 + 15 \\
 &= 65 + 0.8(Y - 40) + 26 + 39 + 15 \\
 &= 145 + 0.8Y - 32 \\
 Y - 0.8Y &= 113 \\
 (1 - 0.8)Y &= 113
 \end{aligned}$$

$$Y = 113/0.2$$

$$Y = \text{N}565 \text{ million} \quad (4 \text{ Marks})$$

(ii) The government expenditure multiplier (K) is expressed as

$$K = \frac{1}{1-b} = \frac{1}{1-0.8} = \frac{1}{0.2} = 5 \quad (2 \text{ Marks})$$

(iii) The change in equilibrium national income, given an additional government expenditure of N20 million

$$\Delta Y = K(\Delta G)$$

$$\Delta Y = 5(20) \text{ million}$$

$$= \text{N}100 \text{ million}$$

This implies that the national income will increase by N100 million, given an additional government expenditure of N20 million

(2 Marks)
 (Total 12½ Marks)

QUESTION 5

a. Development banks are specialized banking financial institutions established mostly by the government to contribute to the development of specific sectors (such as industrial, commerce, agricultural, rural, urban and housing) of the economy.

Examples of development banks in Nigeria are Bank of industry, Federal Mortgage bank, Urban Development Bank (UDB), Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB), National Bank for Commerce and Industry (NBCI) and Bank of Agriculture (BOA) (4½ Marks)

b. The main functions of Development banks in Nigeria include:

- (i) Provision of medium and long-term loans for investment in various sectors like agriculture, manufacturing and commerce.
- (ii) Identification, promotion and development of viable projects for the private sector.
- (iii) Advice and assist indigenous businesses to ensure profitable performance.
- (iv) Directly investing in relevant sectors of the economy.
- (v) Supervising the implementation of projects they finance but requesting progress reports and visiting the project sites,
- (vi) They commission and carry out studies into the social and economic needs of the economy with a view to making policy recommendations to the government.

- (vii) They develop in the citizens, entrepreneurial ability and support their efforts with take-off loans.
- (viii) They serve as a channel through which international investible funds are mobilised to grow the local economy.
- (ix) Nominating technical and managerial partners to both local and foreign investors thereby promoting foreign direct investments (FDIs).

(2 Marks each for any 4 points stated i.e. $2 \times 4 = (8 \text{ Marks})$)

(Total $12\frac{1}{2}$ Marks)

QUESTION 6

- a. (i) The main objectives of African Development Bank (AfDB) are:
1. To finance investment projects and programmes of its members using its resources.
 2. To mobilize resources from outside Africa, especially from developed countries, for the financing of such investment projects and programmes.
 3. To undertake or participate in the selection, study and preparation of projects, enterprises and activities contributing to the development of its members.
 4. To provide technical assistance required in the selection, study, preparation and execution of development projects or programmes.
 5. To promote investments in Africa of public and private capital projects or programmes designed to boost economic development or social progress of its members.

($1\frac{1}{2}$ Marks each for any 3 points stated. $1\frac{1}{2} \times 3 = 4\frac{1}{2}$ Marks)

- (ii) The problems of the African development bank in recent times have been identified as including:

1. The rapid decline in its financial resources due to increasing arrears on loan repayments from member countries.
2. The continued concentration of its lending to a few member countries.
3. Failure of member countries to pay their subscriptions timely and regularly

(1 Mark each for any 2 points identified i.e. $1 \times 2 = 2 \text{ Marks}$)

- (iii) **The main functions of the IMF are:**

1. To promote international monetary co operations through a permanent institution that provides the machinery for consultation and collaboration on international monetary problems.

2. To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income.
3. To promote exchange rate stability, to maintain orderly exchange arrangement among members, and to discourage competitive currency devaluation.
4. To assist in the establishment of a multilateral system of payment in respect of current transactions and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
5. To help member countries overcome their balance of payment difficulties through the provision of short to medium term credit and technical guidance.

(1 Mark each for any three points stated. 1 x 3 = 3 Marks)

The functions of OPEC are:

1. To promote oil price stability in international market through periodic review of members' oil – export volume (quota).
2. To coordinate and unify the petroleum policies of member countries and determine the best means of safeguarding their interest individually and collectively.
3. To provide an efficient economic and regular supply of petroleum to consuming nations.
4. To guarantee a fair return on capital to those individuals and corporate bodies investing in the petroleum industry.
5. To provide financial assistance to poor non-oil producing countries so as to close the gap between the rich and the poor nations (OPEC special fund was established in 1976 in furtherance of this objective).

(1 Mark each for any three points stated. 1x3 = 3 Marks)

(Total 12½ Marks)