

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART I EXAMINATIONS – MARCH 2022**

ECONOMICS

Time Allowed: 3 hours

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. The basic economic problem arises because
 - A. Resources are scarce relative to human wants
 - B. Human wants are insatiable
 - C. Money is generally scarce
 - D. Man engages in too many economic activities
 - E. Resources are unlimited while human wants are limited

2. Efficiency of resource utilisation is attained when
 - A. Production is carried out only by public enterprises
 - B. A combination of goods can be produced with available resources
 - C. The maximum output is achieved from a given scale of production
 - D. One commodity is sacrificed for the production of another
 - E. Production method is altered

3. Which of the following is **NOT** caused by “shift in demand curve”? A change in
 - A. The number of consumers
 - B. The price of a complement
 - C. The price of the commodity itself
 - D. The price of the substitute
 - E. Consumer taste

4. When price elasticity of demand co-efficient is greater than one, demand is said to be
 - A. Fairly elastic
 - B. Inelastic
 - C. Unitary
 - D. Zero
 - E. Fairly inelastic

5. Demand for goods that are substituted can be described as
- Derived demand
 - Complimentary demand
 - Composite demand
 - Competitive demand
 - Negative demand
6. The satisfaction derived from the consumption of a good is called
- Marginal utility
 - Ordinal utility
 - Cardinal utility
 - Average utility
 - Utility
7. The demand for labour service in a production outfit can be described as a
- Derived demand
 - Deduced demand
 - Composite demand
 - Competitive demand
 - Complementary demand

8. In the table below, determine the marginal cost when output is 2

Output	1	2	3	4	5
Total cost (N)	20	56	96	144	160

- N16
 - N20
 - N36
 - N-36
 - N 40
9. Quasi rent refers to
- Payment made on acquisition of a firm's premises
 - Payment made for the procurement of tools and equipment
 - Payment received for factors of production
 - Surplus earnings generated by the factor of production except land.
 - Returns on investment

10. Extractive production activities are classified as
- A. Manufacturing production
 - B. Tertiary production
 - C. Secondary production
 - D. Primary production
 - E. Processing production
11. Which of the following is **NOT** a target of the privatization programme?
- A. Encourage granting of subsidies to public enterprises
 - B. Promote competition and improve service delivery of public utilities
 - C. Facilitate commerce and trade within the local economy
 - D. Promote integration of the local economy into the global economy
 - E. Facilitate the emergence of modern and innovative entrepreneurs
12. The monopoly firm faces the market demand curve which is also its
- A. Average revenue curve
 - B. Total revenue curve
 - C. Marginal revenue curve
 - D. Variable cost curve
 - E. Fixed cost curve
13. Kinked demand curve is a feature of
- A. Oligopoly
 - B. Monopsony
 - C. Monopolistic competition
 - D. Monopoly
 - E. Perfect competition
14. Price discrimination can be practised more profitable in an imperfect competitive market than in a perfect competitive market when the demand for a commodity is
- A. Price elastic in both markets
 - B. Unitary price elastic in both markets
 - C. Price elastic in one market and price inelastic in the other market
 - D. Price inelastic in both markets
 - E. Perfectly price elastic in both markets

15. Which of the following is **NOT** a problem associated with measurement of national income of a country?
- A. Determination of depreciation of fixed assets
 - B. Availability of reliable statistical data
 - C. To avoid double counting
 - D. To accommodate fluctuation of prices
 - E. To recognise and exempt illegal activities
16. The amount by which aggregate demand is less than the aggregate output at the full employment income level is called
- A. Inflationary gap
 - B. Deflationary gap
 - C. Devaluation of currency
 - D. Revaluation of currency
 - E. Consumer surplus
17. Given that $Y = C + I$, where $C = \text{L\$}130\text{m} + 0.80Y$ and $I = \text{L\$}70\text{m}$, the value of the equilibrium level of national income is
- A. L\$1,050 billion
 - B. L\$1,500 billion
 - C. L\$1,000 billion
 - D. L\$2,500 billion
 - E. L\$2,000 billion
18. The combination of measures designed to influence international trade relations is known as
- A. Commercial policy
 - B. Fiscal policy
 - C. Price and income policy
 - D. Monetary policy
 - E. Stabilisation policy
19. Which of the following is **NOT** an instrument for raising funds in the capital market?
- A. Treasury bills
 - B. Equities
 - C. Debentures
 - D. Development bonds
 - E. Development stocks
20. Which of the following is **NOT** the main function of money deposit banks?
- A. Accepting deposits of money
 - B. Issuing of currency notes and coins

- C. Providing foreign exchange services
 - D. Granting loans and advances
 - E. Safe keeping of valuable items
21. Expansionary fiscal policy entails
- A. Increasing government expenditure and taxes
 - B. Reducing government expenditure and taxes
 - C. Increasing government expenditure and reducing taxes
 - D. Reducing government expenditure and increasing taxes
 - E. Increasing cash reserve ratio and liquidity ratio
22. Which of the following is **NOT** an instrument of fiscal policy?
- A. Taxation
 - B. Government expenditure
 - C. Public debts
 - D. Moral suasion
 - E. Domestic borrowings
23. If Mallam Musa earns ₦30,000 per month and pays ₦3,000 as tax and Mr.Udoh earns ₦40,000 per month and pays ₦4,000 as tax, the tax system can be described as
- A. Progressive tax
 - B. Proportional tax
 - C. Regressive tax
 - D. Direct tax
 - E. Indirect tax
24. Unemployment caused by changes in the structure of demand for goods and services or technological changes in an economy is
- A. Cyclical unemployment
 - B. Structural unemployment
 - C. Seasonal unemployment
 - D. Residual unemployment
 - E. Frictional unemployment
25. Which of the following is **NOT** a cause of inflation?
- A. Increase in money supply
 - B. Increase in government spending
 - C. Appreciation
 - D. Excessive growth in wages
 - E. A fall in aggregate output

26. The component of balance of payments that deals with long and short-term capital movement is
- A. Current account
 - B. Capital account
 - C. Official reserve account
 - D. Merchandise Account
 - E. Unilateral transfers
27. Which of the following is **NOT** an argument for trade restriction?
- A. To promote dumping
 - B. To enhance national security
 - C. To protect infant industries
 - D. To correct balance of payments deficits
 - E. To expand domestic employment opportunities
28. The price of one country's currency expressed in terms of another currency is called
- A. Price ratio
 - B. Exchange rate
 - C. Devaluation
 - D. Revaluation
 - E. Price legislation
29. The following countries are members of ECOWAS, **EXCEPT**
- A. Burkina Faso
 - B. Cote D'ivore
 - C. Gabon
 - D. Togo
 - E. Nigeria
30. A process of eliminating restrictions on international trade, payments and factor mobility is called
- A. Economic development
 - B. Economic integration
 - C. Economic policy
 - D. Political integration
 - E. Trade protection

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

ATTEMPT ALL QUESTIONS

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

1. An economic unit that makes decisions regarding the production and sale of goods and services is known as
2. The demand for goods that are close substitute is called
3. If the quantity supplied of a commodity increases from 20 to 30 units when there is an increase in price from GH¢4.00 to GH¢5.00, the coefficient of price elasticity of supply is
4. When the budget line is just tangent to the indifference curve, is illustrated.
5. The production period that involves a constraint by any of the inputs employed which limits the decision maker's choices is known as.....
6. The surplus received by any factor of production above its opportunity cost is referred to as
7. The processing of flour into bread, hides and skin into shoe are examples of type of production.
8. The feature of a perfectly competitive market that makes it impossible to earn economic profits in the long run is the assumption of
9. Product differentiation is an essential feature of a market structure called
10. If disposable income increases from Le,200 to Le1,800, and Marginal Propensity to Consume is 0.3, the change in consumption is
11. When Gross Domestic Product (GDP) is added to Net Factor Incomes from abroad, the result is

QUESTION 2

- a. Explain the concepts of total utility (TU) and marginal utility (MU).
(4 Marks)
- b. Assume the following table presents the total utility (TU) schedule for commodity X

Quantity (Q _x)	Total Utility (TU _x)	Marginal Utility (MU _x)
0	0	
1	10	
2	16	
3	20	
4	22	
5	23	
6	23	
7	21	

Required:

- i. Copy and complete the table for the marginal utility trend.
(1½ Marks)
- ii. Plot the data to obtain the Total Utility and Marginal Utility curves.
(1½ Marks)
- iii. Explain the relationship between the total utility and marginal utility curves.
(2½ Marks)
- c. State the law of diminishing marginal utility and identify its implication for the law of demand.
(3 Marks)

(Total 12½ Marks)

QUESTION 3

- a. “Where to locate a firm is an important decision to be taken because the success or failure of the firm may depend on the site chosen” Given this viewpoint, identify and explain **FIVE** main factors influencing location of a business firm.
(10 Marks)

- b. What is the difference between 'a firm' and 'an industry'?
(2½ Marks)

(Total 12½ Marks)

PART II:

MACROECONOMICS

ATTEMPT ANY TWO QUESTIONS

QUESTION 4

- a. Explain **FOUR** main functions of deposit money banks (DMBs) in a modern economy. (6 Marks)
- b. i. Given an initial deposit of L\$45 million in the banking system and the cash reserve ratio of 20%, determine the total amount of money that would be created in the system, all other things being equal. (3½ Marks)
- ii. List **THREE** factors that limit the ability of the deposit money banking system to create money. (3 Marks)

(Total 12½ Marks)

QUESTION 5

- a. State the principle of comparative cost advantage. (2½ Marks)
- b. Assume the table below shows a hypothetical data on the production of groundnut ('000 tons) and cocoa ('000 tons) by Gambia and Nigeria in a given year.

Country	Output of groundnut (per labour per month)	Output of cocoa (per labour per month)
Gambia	1875	1250
Nigeria	575	450

Using the information in the table:

- i. Calculate the opportunity cost of a ton of groundnut in terms of a ton of cocoa in each country. (3 Marks)
- ii. Calculate the opportunity cost of a ton of cocoa in terms of a ton of groundnut in each country. (3 Marks)
- iii. From your results in (i) and (ii) above, determine the commodity

in which each of the countries has comparative cost advantage.
(4 Marks)

(Total 12¹/₂ Marks)

QUESTION 6

- a. What is Development planning? (2¹/₂ Marks)
- b. Explain clearly **FOUR** main objectives of development planning in a typical developing country. (10 Marks)

(Total 12¹/₂ Marks)

SOLUTION TO QUESTIONS

SECTION A: PART 1 MULTIPLE CHOICE QUESTIONS (MCQ)

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

EXAMINER'S COMMENT

The questions in this part were selected from all topics in the syllabus. It is compulsory for the candidates. All the candidates attempted the questions and about 53% of them scored pass marks. Effective coverage of the entire syllabus is required for candidates to score well in this part.

SECTION A: PART II SHORT ANSWER QUESTION (SAQ)

1. Firm
2. Competitive demand
3. 2
4. Consumer equilibrium
5. Short run period
6. Economic rent
7. Secondary
8. Free entry and free exit
9. Monopolistic competition
10. Le 480
11. Gross National Product (GNP)
12. Central Bank
13. Medium of exchange
14. Tax rate
15. Principle of equity/Ability-to-pay principle
16. Unemployment
17. Currency devaluation
18. Foreign exchange market
19. Per capita real GNP
20. Medium term development plan

SECTION B: PART I MICROECONOMICS

QUESTION 1

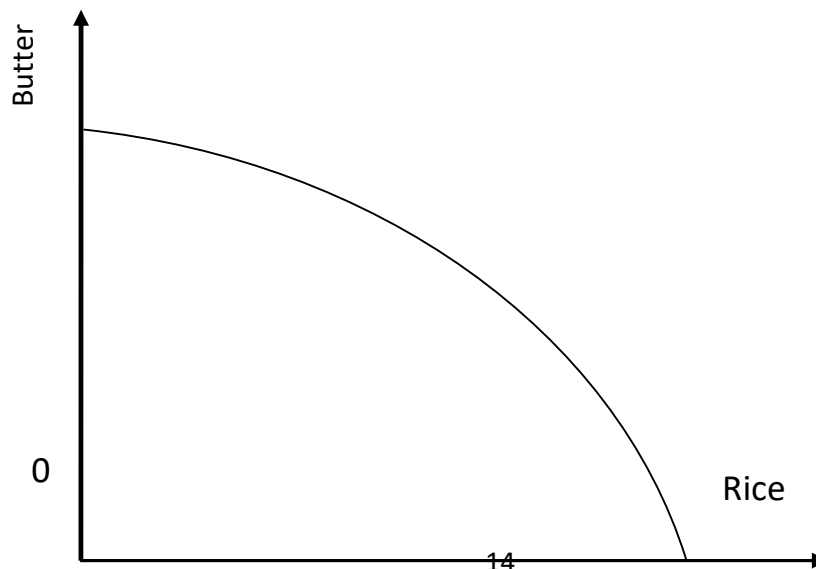
- a. **Scarcity:** The concept of scarcity means that people do not have as much as they desire. The problem of scarcity arises as a result of the fact that, at any point in time, the productive resources available in any society are limited, whereas human wants are unlimited. It follows that the amount of goods and services that can be produced are limited and inadequate to meet human wants. Therefore, the concept of scarcity guides every society to resolve three fundamental economic questions of what to produce, how to produce, and for whom to produce.

Choice: A choice becomes necessary as a result of scarcity. Making a choice implies giving up something in order to get something else. The concept of choice relates to all the three main economic agents in the economy.

- An individual consumer must choose among types of goods and services, between present and future consumption because of his limited money income.
- The firm must choose what to produce and how to produce given the constraints imposed by its limited resources.
- The government must decide what public goods and services to provide for the people given its limited revenue as projected in the budget.

- b.i) **A production possibilities curve (PPC)** shows the various combinations of two goods that can be produced in a country when all available resources are fully and efficiently utilized. It is drawn under the assumption that the society is using all its resources to produce only two goods – rice and butter.

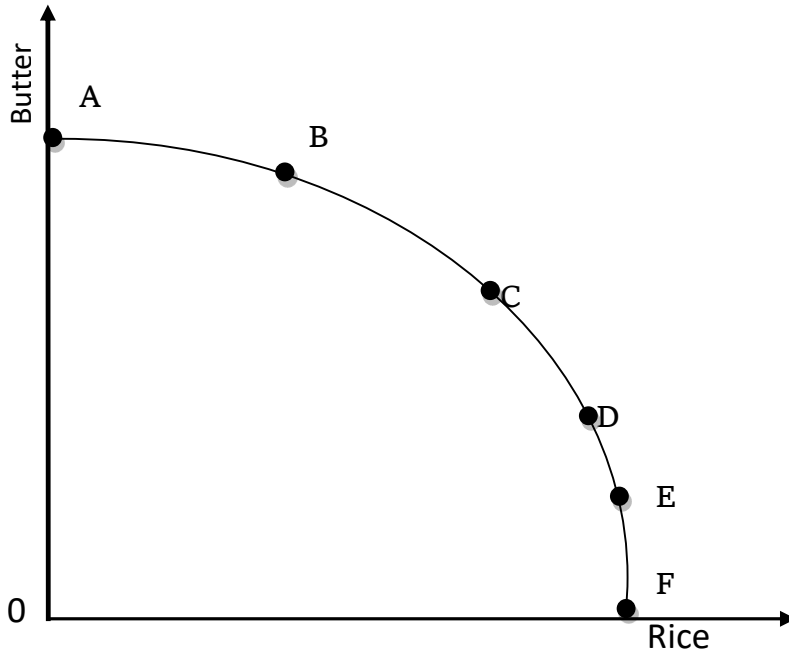
A production possibilities curve can be hypothetically illustrated as in the diagram below:



Production Possibilities Curve (PPC)

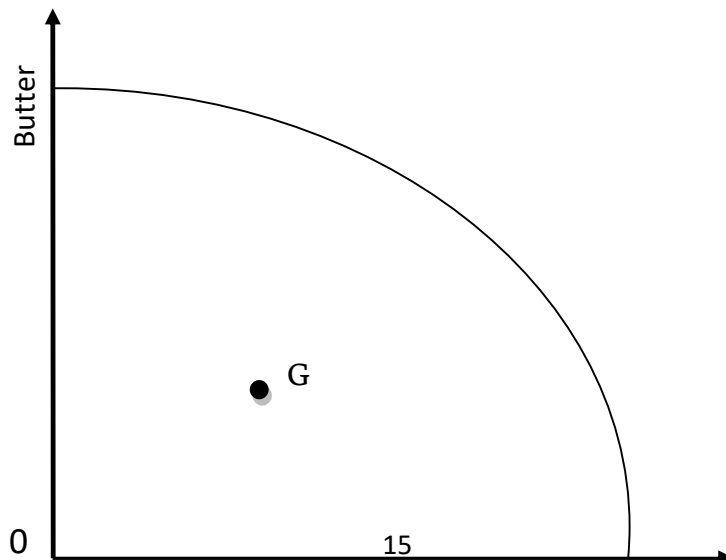
b (ii)

- **Full – employment:** Any point on the PPC (such as A to F) shows the combinations of the two goods that the economy can produce given that all available resources are fully and efficiently utilized.



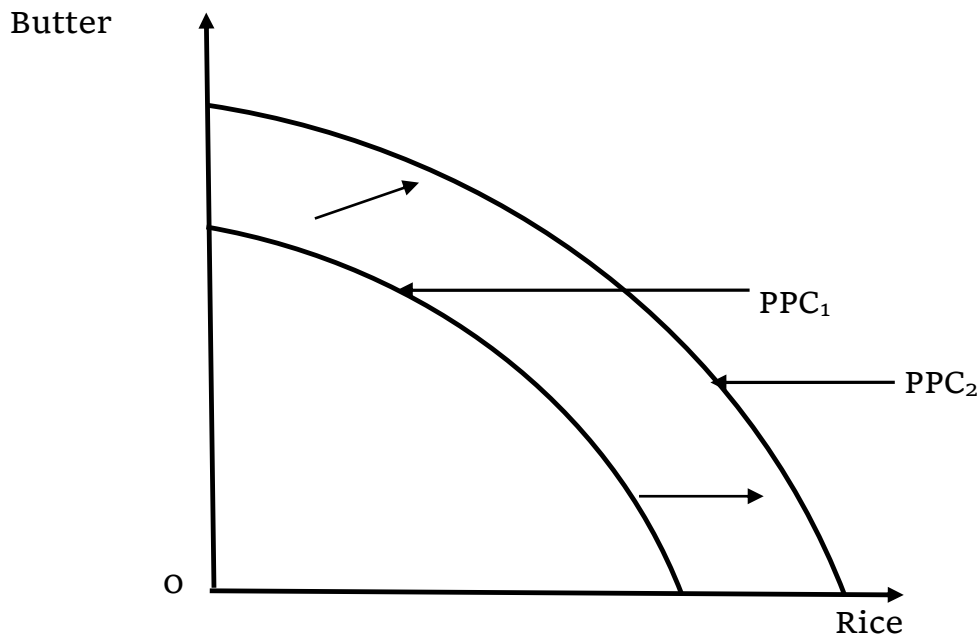
Full – employment

- **Underemployment:** Any point inside the PPC, such as G, shows that some resources are either left completely idle (unemployed) or are not efficiently utilized (underemployed).



Under employment Rice

Economic growth: It can be defined as a sustained increase in the production capacity of an economy which leads to a greater output of goods and services. This is represented by an outward shift in the production possibilities curve from PPC_1 to PPC_2 as in the diagram below



The PPC'S Illustration of Economic Growth

QUESTION 2

- a. **Total Utility** refers to the total satisfaction obtained by a consumer from the consumption of some quantity of a good or service. For example, the total utility from Apple (TU_a) is dependent on the quantity of Apple (Q_a) consumed. This can be written in a functional relationship as

$$TU_a = f(Q_a)$$

Marginal Utility is the additional satisfaction a consumer derives from one more unit of the good or service consumed. It is obtained as the ratio of change in total utility (ΔTU) to change in the quantity (ΔQ) consumed of a good or service. It can be expressed as

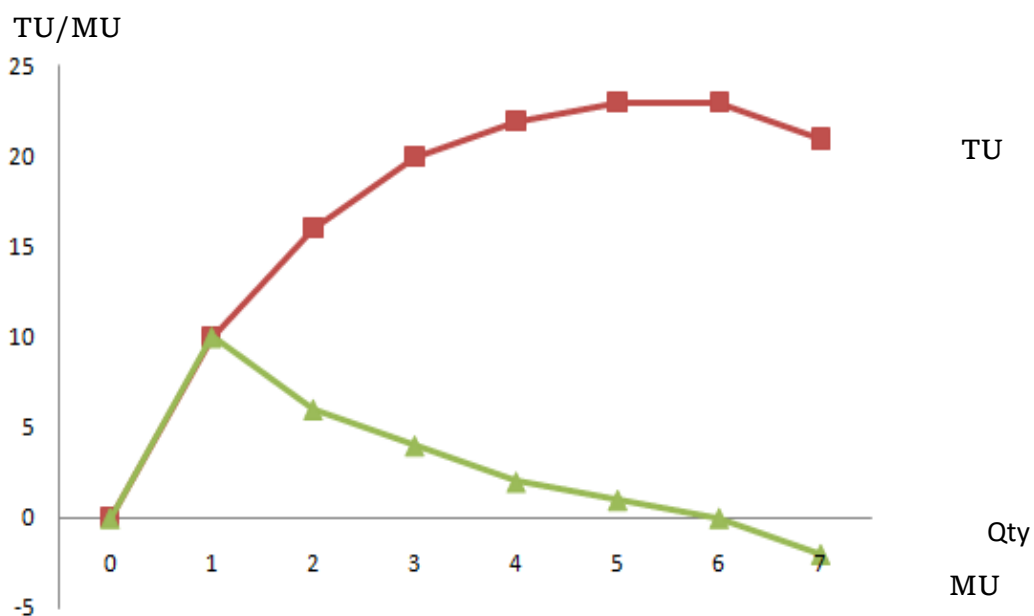
$$MU_2 = TU_2 - TU_1 \text{ or } MU_X = \frac{\Delta TU_X}{\Delta Q_X}$$

b. (i)

Quantity (Q _x)	Total Utility (TU _x)	Marginal Utility (MU _x)
0	0	-
1	10	10
2	16	6
3	20	4
4	22	2
5	23	1
6	23	0
7	21	-2

The marginal utility trend above is obtained with the formula $MU_x = \frac{\Delta TU_x}{\Delta Q_x}$

(ii) The total utility and marginal utility curves are presented in the following graph



(iii) From the graph above, it could be observed that as output increases, total utility increases and marginal utility decreases. When total utility is at the maximum, marginal utility is at point zero. But when total utility starts decreasing, marginal utility is negative.

- c. **The law of Diminishing Marginal Utility.** The law of diminishing marginal utility states that as more and more units of a particular good or service are consumed during a specific time period, the satisfaction derived from each additional unit of the good or service consumed decreases.

The implication: The law of diminishing marginal utility is used to explain the derivation of the downward sloping demand curve.

QUESTION 3

a. Factors determining location of a business firm

- i. **Nearness to the source of raw materials:** If the required raw materials for production are heavy and bulky, the firm will be sited near the source of raw materials in order to reduce the transport expenses. For example, cement industry is located at Ewekoro and Sokoto because of limestone deposits in these towns.
- ii **Natural factors:** Some factories are located in certain areas due to natural presence of non-transferable basic raw materials.
- ii. **Nearness to markets:** Some goods are perishable, heavy and fragile in nature which makes it necessary for market to be very close to the area where they are produced. If markets are located near the firm, it will reduce transportation cost.
- iii. **Availability of infrastructural facilities:** The existence of a good communication system, pipe-borne water, transportation network, electricity supply, schools and hospitals are essential for location of firm to reduce production cost.
- iv. **Nearness to source of finance:** Most firms are located in an area where there is the existence of banks and other financial institutions from which the firms can obtain loans for expansion and where they can keep their accounts.
- v. **Nearness to other firms:** Firms that are located near each other may derive cost-saving advantages from each other where the output of one firm becomes the input of another firm. Economists refer to such cost-saving advantages as external economies.

- vi. **Social and political factors:** Government may discourage the excessive concentration of industries in an area in order to avoid problems of overcrowding, traffic congestion, shortages of social facilities-hospitals, schools and so on. Furthermore the establishment of petroleum refinery in Kaduna is more of political than economic reason because crude oil which is the raw material is not found in Kaduna or anywhere around it.
- viii. **Even development consideration:** Government at times encourages location of industry in a rural area in order to promote even development. A typical example is the rural banking scheme introduced by the Federal Government of Nigeria. If industries are sited in the rural areas, it will hasten the provision of infrastructural facilities which will further enhance the standard of living of the rural dwellers.

b. The difference between ‘a firm and an industry’

A firm is a business unit that is engaged in the production of a good or provision of a service, For example, International Brewery, Ilesha in Osun State.

An industry is a collection of firms that produce similar goods or services such as Brewing industry that consists of Guinness Nigeria Plc, Nigerian brewing Plc.

QUESTION 4

- (a) The main functions of Deposit money banks (DMBs) in an economy are:
 - (i) **Accepting deposits of money:** Deposit money banks, accept deposits in form of demand deposit, saving deposit and time deposit from individuals, firms and government.
 - (ii) **Granting loans and advances:** The Deposit money banks give loans and advances to worthy customers. Interest rates are charged on these facilities, thus making it as one of their profitable functions. The loans and advances could take the forms of short – term credit facilities such as overdraft; medium – term facilities and loan syndication to finance large project.
 - (iii) **Acting as agents of payment:** Deposit money banks’ customers keep current accounts from which they can draw for settlement of debts and for payments for goods and services. They also transfer funds on behalf

of their customers through collection of standing orders and direct debiting.

- (iv) **Providing international trade services:** Deposit money banks are involved in the financial aspects of international trade, especially by discounting bills of exchange for their customers who are exporters and opening letters of credit in favour of their customers who are importers.
 - (v) **Providing brokerage services:** Deposit money banks undertake to buy and sell stocks and shares on behalf of their customers.
 - (vi) **Foreign exchange services:** Deposit money banks act as intermediaries between the Central Bank or authorized foreign exchange dealers and their corporate customers to process foreign exchange allocations. They also provide traveller's cheque to their customers who are travelling out of the country.
 - (vii) **Safekeeping of valuable items:** Deposit money banks undertake to keep for their customers valuable items such as government stock, share certificates, academic certificates, certificate of occupancy, jewelleries, insurance policies, etc.
 - (viii) **Equipment leasing:** The banks finance purchases of fixed assets by their customers (mostly business enterprises) and allowing repayment over an agreed period of time. The bank is the lessor while the beneficiary is the lessee.
- (bi)** Given an initial deposit of L\$45 million in the banking system and the cash reserve ratio (CRR) of 20%, the total amount of money (M_{ed}) that would be created is

$$M_{ed} = \frac{\text{Initial deposit}}{\text{CRR}}$$
$$M_{ed} = \frac{45}{0.20}$$
$$M_{ed} = \text{L\$225 million}$$

- (bii)** The factors that limit the ability of the Deposit money banks to create money include:
- (i) Cash reserve ratio and special deposit issued by the Central bank
 - (ii) Cash leakage out of the banking system
 - (iii) Willingness of the banks to lend to the public
 - (iv) Willingness of customers to borrow from the banking system

QUESTION 5

(a) The principle of comparative cost advantage states that a country should produce and export goods in which it has a comparative advantage, and import those goods in which it has a comparative disadvantage.

(b) (i) The opportunity cost of a ton of groundnut in terms of a ton of cocoa (OCgc) in each country is expressed as

$$OC_{gc} = \frac{\text{Output of Cocoa}}{\text{Output of Groundnut}}$$

For Gambia

$$\begin{aligned}
 OC_{gc} &= \frac{\text{Output of Cocoa}}{\text{Output of Groundnut}} \\
 &= \frac{1250}{1875} \\
 &= \mathbf{0.67}
 \end{aligned}$$

For Nigeria

$$\begin{aligned}
 OC_{gc} &= \frac{\text{Output of Cocoa}}{\text{Output of Groundnut}} \\
 &= \frac{450}{575} \\
 OC_{gc} &= \mathbf{0.78}
 \end{aligned}$$

(ii) The opportunity cost of a ton of cocoa in terms of a ton of groundnut (OCcg) in **each** country is expressed as:

$$OC_{cg} = \frac{\text{Output of groundnut}}{\text{Output of Cocoa}}$$

For Gambia

$$OC_{cg} = \frac{\text{Output of groundnut}}{\text{Output of Cocoa}}$$

$$= \frac{1875}{1250}$$

$$OC_{cg} = 1.5$$

For Nigeria

$$OC_{cg} = \frac{\text{Output of groundnut}}{\text{Output of Cocoa}}$$

$$= \frac{575}{450}$$

$$OC_{cg} = 1.28$$

- (iii) From the results in (i) and (ii) above, Gambia has comparative cost advantage in production of groundnut, and Nigeria has the comparative cost advantage in production of cocoa. This is because each of the countries has lower opportunity cost in their respective production of commodity.

QUESTION 6

- (a) Development planning is a process that involves a conscious allocation of resources by the government to the various sectors of the economy for purpose of promoting rapid economic growth in an economy. Thus development planning entails three dimensions like resource accumulation, resource allocation and resource management. For development planning to achieve its purpose the various sectors of the economy should be involved, while the Ministries, Departments and Agencies (MDAs) should be well coordinated.
- (b) The main objectives of development planning in a typical developing country are:
- (i) **To maximize the utilization of economic resources:** The resources of any nation are not always enough for her use. Therefore, resources must be allocated in such a way to achieve maximum output and accelerate economic development.
 - (ii) **To correct the imperfection of the market system:** The market system in reality is not perfect and therefore allocation of resources which occur under perfect competition model does not happen. Therefore, there is the need for government's intervention to ensure efficient allocation of resources

- (iii) **To bridge the gap between private cost and social cost, and private benefit and social benefit:** For example, under perfect markets, there may be a divergence between benefits provided or cost incurred by the third party in the production or consumption of a good or service (Existence of externalities).
- (iv) **To ensure balanced growth:** Planning may be used to ensure balanced growth for all sectors of the economy. By this there will be uniform growth and provision of complementary services and intra sectoral linkages.
- (v) **To attract foreign investment:** Development plans are used as a means of attracting foreign investment or foreign aids. Foreign government and international organizations providing grants and loans need to be satisfied that the funds they intend to provide will be put to good use.
- (vi) **To match the available resources with the desired goals:** The complementary nature of some investment decisions requires planning because the viability of one project may be conditioned upon another project. For example, the development of the agricultural sector may require setting up of irrigation projects and a special transport facility for conveying agricultural produce between the farms and the market places.