

EXTRA-OIL QUESTIONS 1 (E 001)

① What is Economics? Principle of Economics  
Answer

Economics is a social science that studies how society chooses to allocate its scarce resources, which have alternative uses, to provide goods and services for present and future consumption.

OR

Economics is the study of how society manages its scarce resources.

② Write a short note on goods and resources  
Soln

A good is anything that satisfies a want. That is the purpose of production - to provide goods that satisfy wants. So goods are produced, and the consumption of those goods satisfies wants. Goods are tangible. Tangible goods are physical items such as bulldozers or pizzas.

Resources;

The satisfaction of wants can only be accomplished by using up resources, the inputs, the so-called factors of production or means of production. These resources can be classified land, labour, capital and entrepreneurship.

①

EXTRA-OFF QUESTION TIME  
Principles of Economics  
③ List the factors of production and explain them

Answer

① Land is really a combination of 2 different factors first, there is the area of land that is needed to produce the good. This may be agricultural land, factory area, shop space, warehouse space or office space. Second, land relates to all natural resources, that is anything that comes from the surface of the land, underneath it or on top of it. Thus we include minerals, crude oil, wood etc.

② Labour is mainly human resource, both physical and mental effort that is contributed toward production. Labour is often divided into unskilled, semi-skilled, skilled, administrative and managerial workers.

③ Capital - This does not refer to money or capital market instruments; rather it refers to capital goods, that is plant and machinery.

④ Entrepreneurship - Refers to the ability to identify and exploit market opportunities.

④ What is Scarcity?

Answer

Scarcity means that society has limited resources and therefore cannot produce all the goods and services people wish to have

②

OR: Scarcity is the idea that there is not enough of something to satisfy everyone who would like that something.

⑤ Explain the term 'Opportunity Cost'

Answer

Opportunity Cost is what you did not choose in making a choice and not what you choose when you make a choice. Opportunity Cost is the value of the forgone alternative that is, what you gave up when you get something.

2016 assignment one

1) Define the law of Demand

② List four (4) determinants of demand and explain 2 of them

③ Illustrate each of the 4 events using a demand for corn graph (diagram)

(i) Reports surface that corns are infected with a deadly virus

(ii) Consumer's incomes drop

(iii) Consumers expects the price of corn to decrease in the future.

Answer

(a) Law of Demand states that the quantity of goods/services demanded decreases as the price of the good/service increases and vice versa

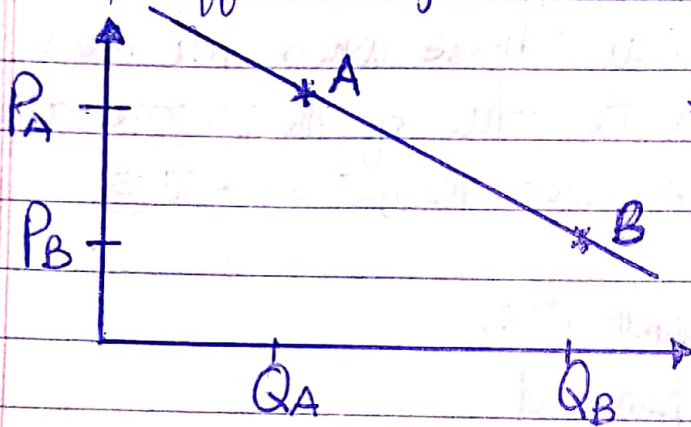
(b) (i) Price of goods/services (ii) Income of consumer

(iii) Price of related goods (iv) Consumer preferences.

③

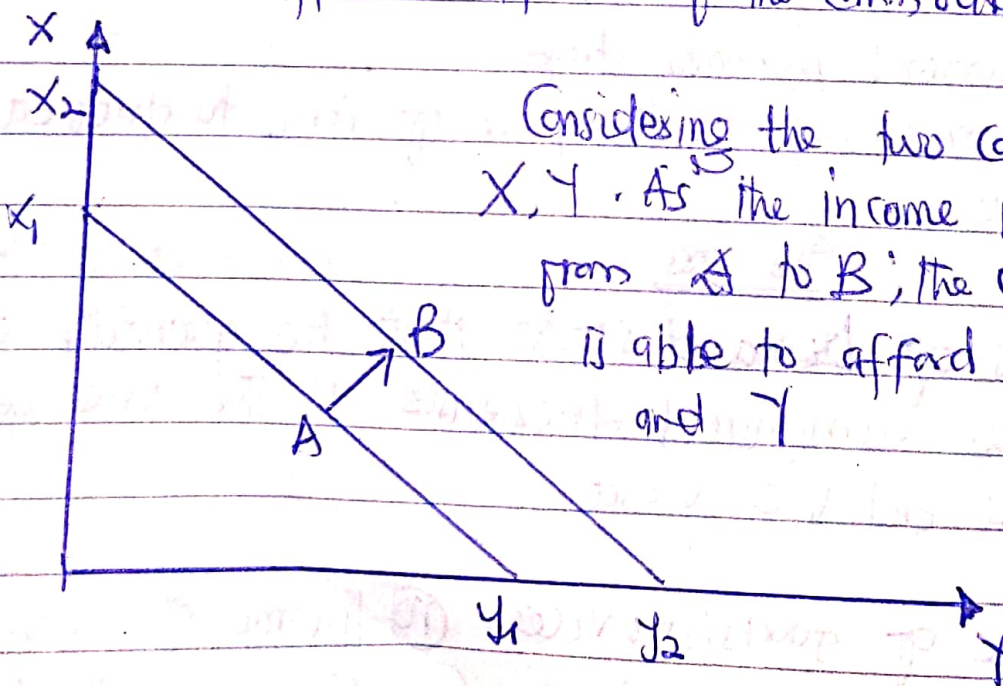
## Explanation;

(i) Price of goods/services → Increase in the price of goods/services leads to a reduction in the demand of the goods/services as few consumers are able to afford the goods/services. Also when the price decreases, more consumers are able to afford the goods/services. Hence demand increases.



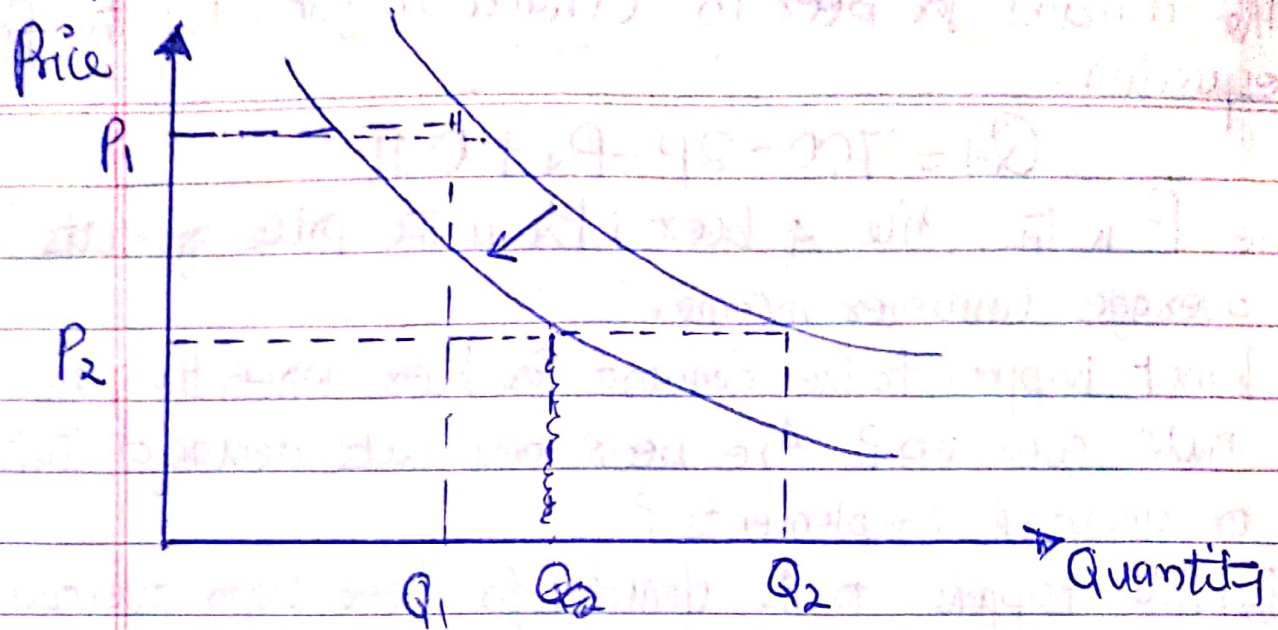
At price A, Quantity is less at price B, quantity increased, from the graph since the price is reduced.

(ii) Income of consumer. Increase in income of consumer means, he has more money to afford a greater quantity of goods, hence demand increases whereas decrease in income means he can afford only less of the commodity.



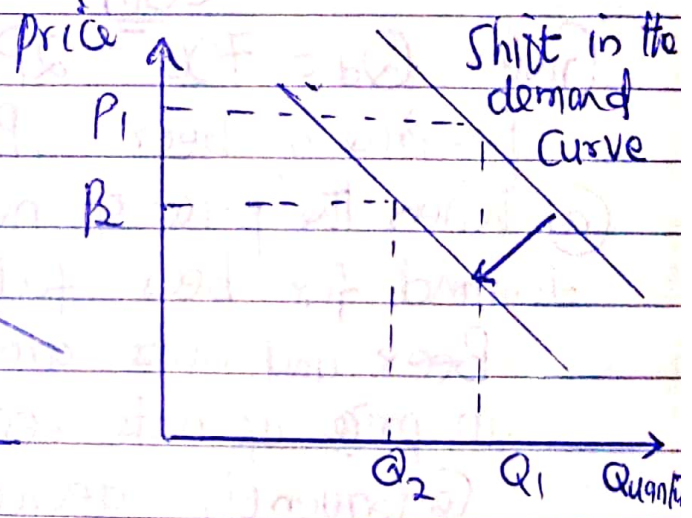
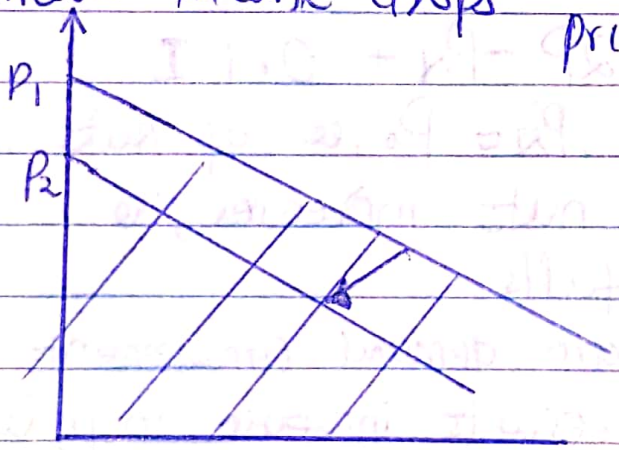
Considering the two commodities X, Y. As the income increased from A to B, the consumer is able to afford more at X and Y.

Cris reports survice that corns are infected with a deadly virus

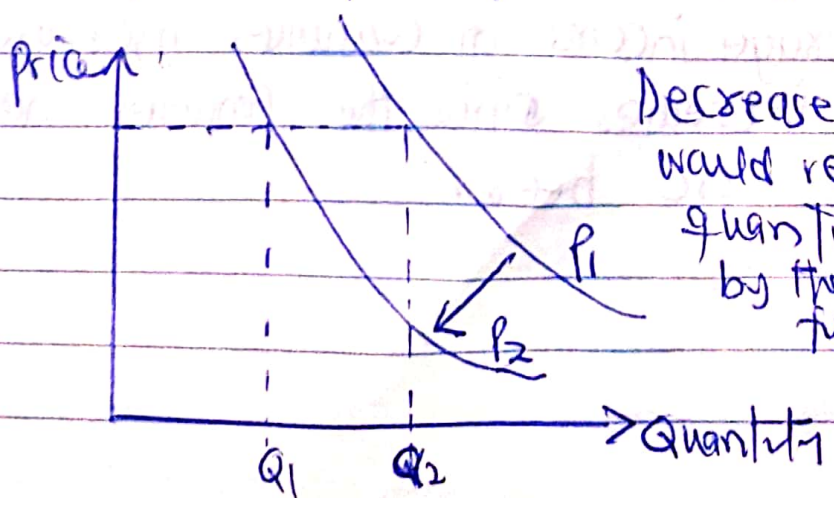


The price of corn reduces due to the infection hence quantity demanded is high ( $Q_2$ )

(ii) Consumer's income drops



(iii) Consumers expect the price of Corn to decrease in the future



Decrease in price of good would result in higher quantity demanded ( $Q_2$ ) by the consumer in the future.

② The demand for beer in Ghana is given by the following equation:

$$Q_d = 700 - 2P - P_N + 0.1I$$

where  $P$  is the price of beer;  $P_N$  is the price of nuts, and  $I$  is average consumer income.

① What happens to the demand for beer when the price of nuts goes up? Are beer and nuts demand substitutes or demand complements?

② What happens to the demand for beer when average consumer income rises?

③ Graph the demand curve for beer when  $P_N = 100$  and  $I = 10,000$ .

Soln

Given  $Q_d = 700 - 2P - P_N + 0.1I$

$P$  = price of beer,  $P_N$  = Price of nuts,  $I$  = Average

① When the price of nuts increases, the demand for beer falls. Consumer income

Beer and nuts are demand complements, since an increase in price of nuts results in increase in price of beer and consequently decrease in demand of beer.

② When average income of consumers increases, the demand for beer increases since the consumer has money to purchase more beer.

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$$P_N = 100 \quad I = 10,000$$

$$\text{Then } Q_d = 700 - 2P - P_N + 0.1 I \quad \text{--- (1)}$$

By substitution;

$$Q_d = 700 - 2P - 100 + 0.1(10,000)$$

$$Q_d = 700 - 100 + 1000 - 2P$$

$$Q_d = 1600 - 2P$$

For the graph,  $(Q_d, \text{Price}) = (0, 0)$

$$\text{When } Q_d = 0$$

$$0 = 1600 - 2P$$

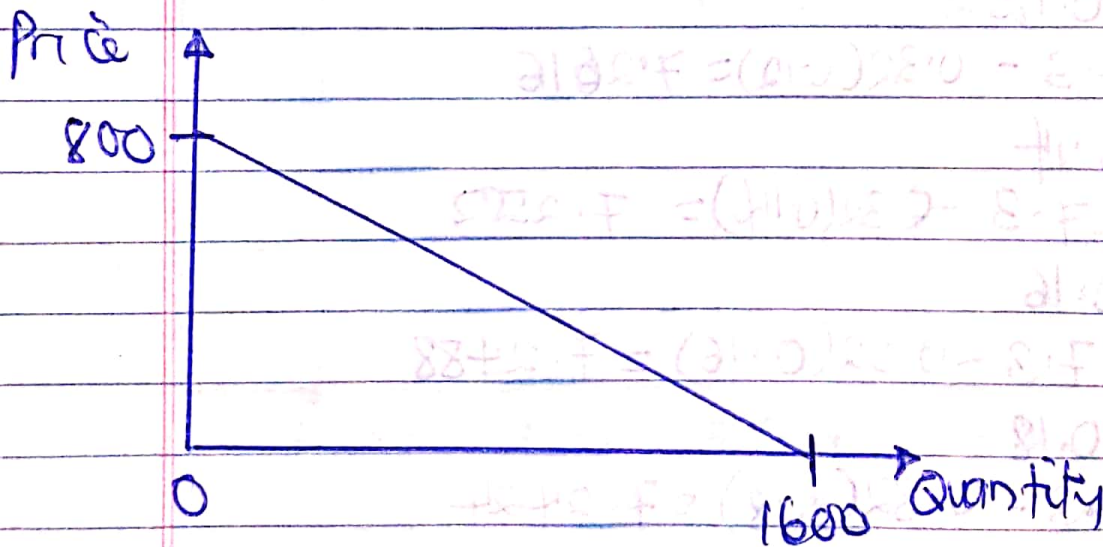
$$P = 800$$

$$(0, 800)$$

$$\text{When } P = 0$$

$$Q_d = 1600 - 2(0) = 1600$$

$$; (1600, 0)$$



③ Suppose the demand for pure water in Ghana is described by the equation  $Q_d = 7.3 - 0.32P$

Where  $Q_d$  is the number of pure water demanded per year (in million of gallons),  $P$  is the average price of pure water (in Cedis)

① Sketch the demand schedule if the quantity of pure water demanded per average price is GH¢ 0.10, 0.12, 0.14, 0.16, 0.18, 0.20

② Sketch the demand curve for pure water.

Soln

$$Q_d = 7.3 - 0.32P$$

① Demand Schedule

(i) When  $P = 0.10$

$$Q_d = 7.3 - 0.32(0.10) = 7.2680$$

When  $P = 0.12$

$$Q_d = 7.3 - 0.32(0.12) = 7.2616$$

When  $P = 0.14$

$$Q_d = 7.3 - 0.32(0.14) = 7.2552$$

When  $P = 0.16$

$$Q_d = 7.3 - 0.32(0.16) = 7.2488$$

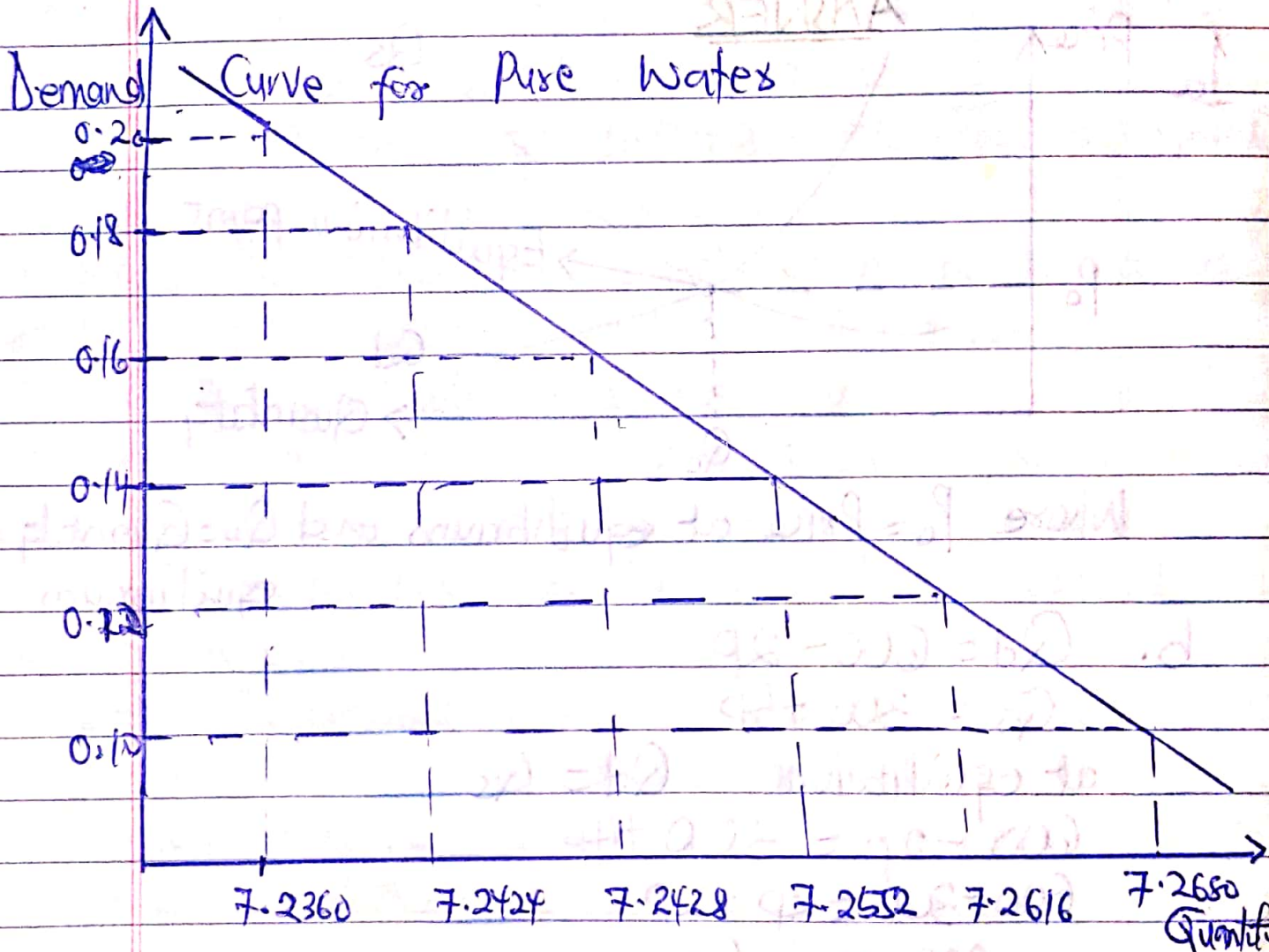
When  $P = 0.18$

$$Q_d = 7.3 - 0.32(0.18) = 7.2424$$

When  $P = 0.20$

$$Q_d = 7.3 - 0.32(0.20) = 7.2360$$

| Price (¢) | Quantity |
|-----------|----------|
| 0.10      | 7.2680   |
| 0.12      | 7.2616   |
| 0.14      | 7.2552   |
| 0.16      | 7.2488   |
| 0.18      | 7.2424   |
| 0.20      | 7.2360   |



08

9

$$q = 600 - 100 = 500$$

∴ Market equilibrium price is 50 and quantity is 500

(2) Using a Curve, define market equilibrium

(a) Suppose the demand and supply curve of Commodity T in a perfectly competitive market are given by:  
 $q^D = 700 - p$  and  $q^S = 500 + 3p$ . At equilibrium, what quantity of T will be produced?

(b) Suppose the demand and supply curves of bread are given by:  $q^D = 1000 - p$  and  $q^S = 700 + 2p$

(i) Find the equilibrium price and quantity

(ii) Now that the price of an input used to produce the bread has increased so that the new supply curve is  $q^S = 400 + 2p$ . How does the equilibrium price and quantity change?

(iii) Suppose the ~~current~~ government has imposed a tax of AHD 5 per unit sales of bread. How does it affect the equilibrium price and quantity using Indifference Curve to explain? ANSWER

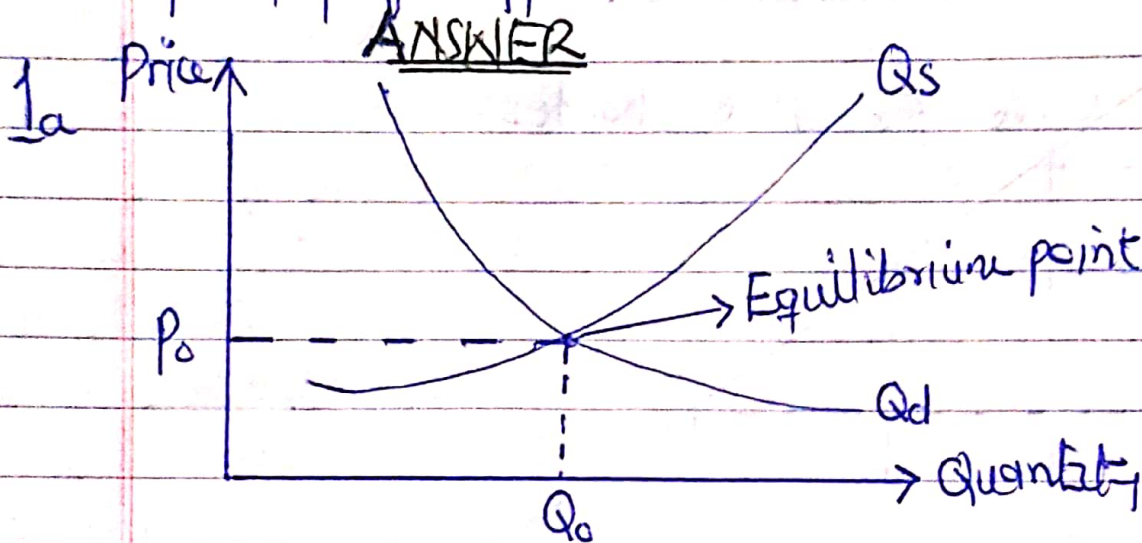
(2a) Market equilibrium is a situation in which the market price has reached the level at which quantity supplied equals the quantity demanded.

## 2016 Assignment 2

① The demand and supply curves for coffee are given by  
 $Q_d = 600 - 2P$  and  $Q_s = 300 + 4P$

① plot the supply and demand curve on a graph and show where the equilibrium occurs.

② Using algebra, determine the market equilibrium price and quantity of coffee.



Where  $P_0$  = Price at equilibrium and  $Q_0$  = Quantity at equilibrium

b.  $Q_d = 600 - 2p$

$$Q_s = 300 + 4p$$

at equilibrium  $Q_d = Q_s$

$$600 - 2p = 300 + 4p$$

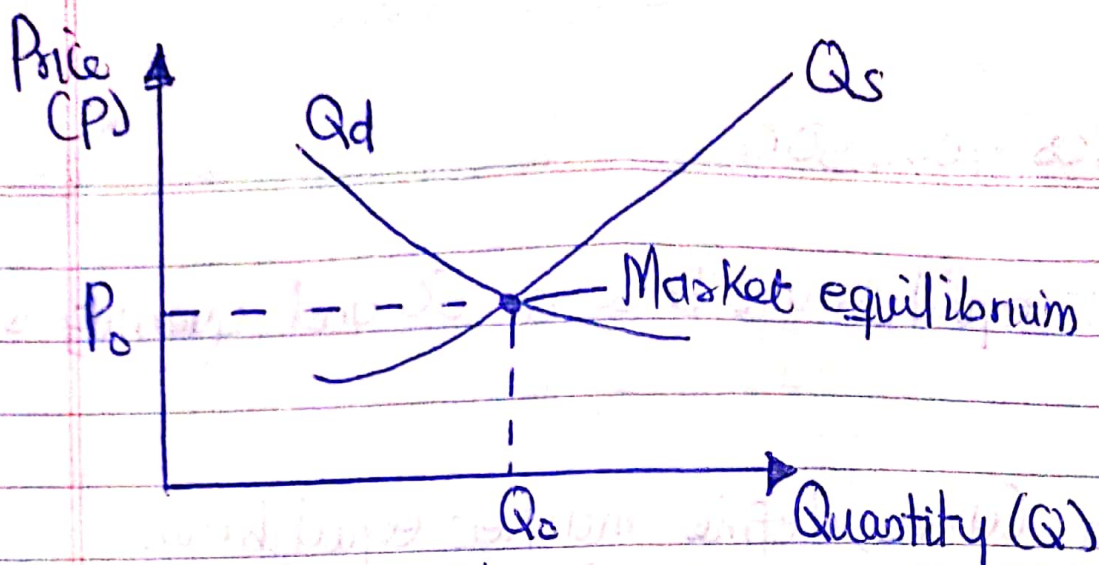
$$600 - 300 = 4p + 2p$$

$$300 = 6p$$

$$\therefore p = \frac{300}{6} = 50$$

Substituting  $p=50$  in  $Q_d$ , we have

$$q = 600 - 2(50)$$



Where  $P_0$  is the equilibrium price,  $Q_0$  = Equilibrium quantity

Given that

$$(b) \quad q^D = 700 - p$$

$$q^S = 500 + 3p$$

At equilibrium;  $q^D = q^S$

$$\therefore 700 - p = 500 + 3p$$

$$700 - 500 = 3p + p$$

$$200 = 4p$$

$$\therefore p = \frac{200}{4} = 50$$

Substituting into  $q^D$  equation

$$q^D = 700 - 50 = 650$$

$\therefore$  at equilibrium quantity of T produced is 650

$$(c) (i) \quad q^D = 1000 - p$$

$$q^S = 700 + 2p$$

At equilibrium,  $q^D = q^S$

$$1000 - p = 700 + 2p$$

$$1000 - 700 = 2p + p$$

$$300 = 3p$$

$$\therefore p = \frac{300}{3} = 100$$

$$\Rightarrow q^D = 1000 - 100 = 900$$

Hence at equilibrium price is 100 and quantity is 900.

$$(ii) q^S = 400 + 2p$$

$$q^D = 1000 - p$$

At equilibrium ;  $q^D = q^S$

$$1000 - p = 400 + 2p$$

$$1000 - 400 = 2p + p$$

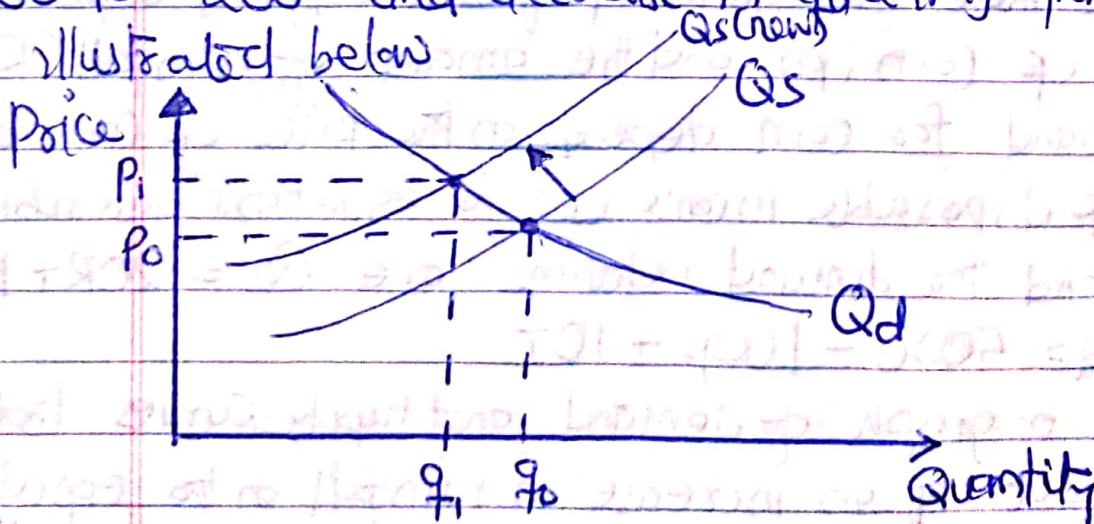
$$600 = 3p$$

$$p = \frac{600}{3} = 200$$

$$\therefore \text{from } q^D = 1000 - p$$

$$q^D = 1000 - 200 = 800$$

Change in the supply curve causes an increase in price from 100 to 200 and decrease in quantity from 900 to 800 as illustrated below



(13)

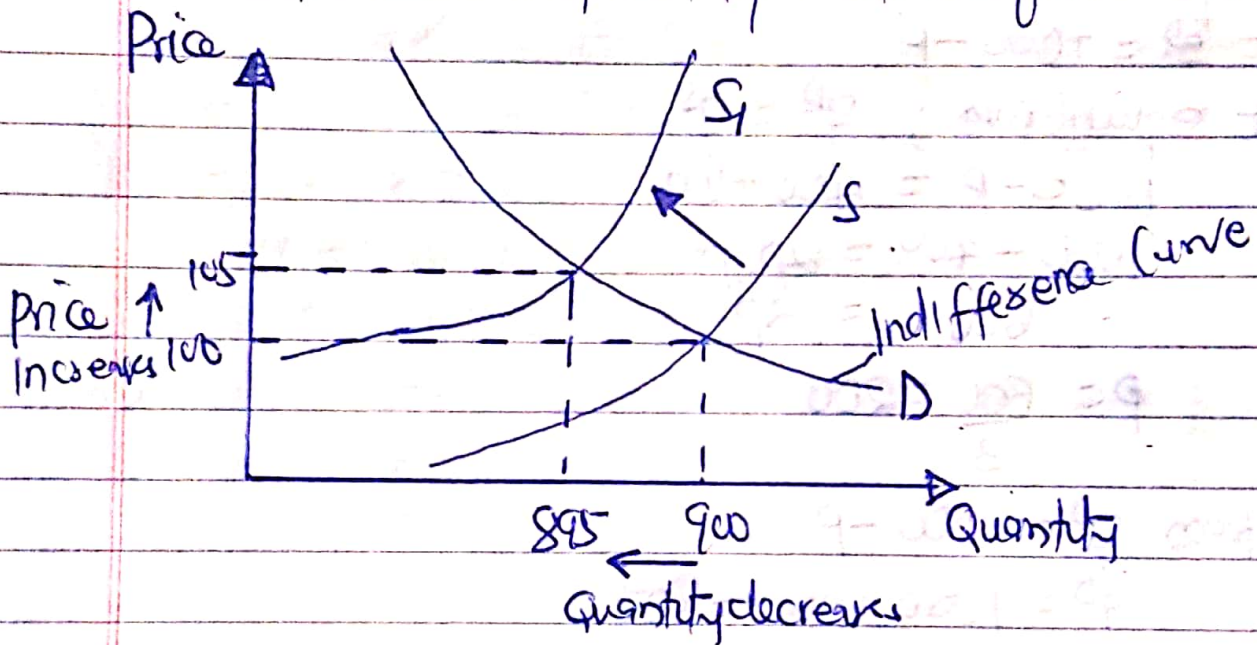
(Ciii) Suppose the government has imposed a tax of \$5 per unit sales of bread, then the equilibrium price now becomes \$5 + \$100 = \$105

$$\therefore \text{Quantity, } Q^d = 1000 - p$$

$$1000 - 105$$

$$895$$

Hence the new equilibrium, price shifts from 100 to 105 and the equilibrium quantity reduces from 900 to 895



(3) Suppose that the quantity of Corn supplied depends on the price of corn ( $p$ ) and the amount of rainfall ( $R$ ). The demand for corn depends on the price of corn and level of disposable income ( $I$ ). The equations describing the supply and the demand relations are  $Q_s = 20R + 100p$  and  $Q_d = 4000 - 100p + 10I$

(a) Sketch a graph of demand and supply curves that show the effect of an increase in rainfall on the equilibrium

price and quantity of corn

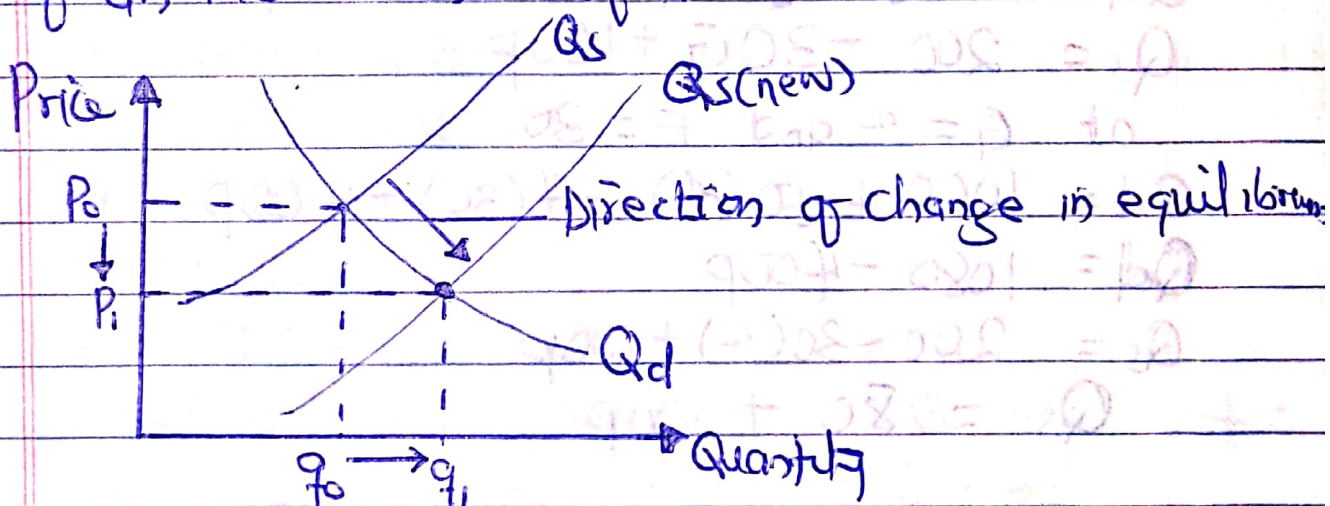
(b) Sketch a graph of demand and supply curves that shows the decrease in disposable income on the equilibrium price and quantity of corn.

ANSWER

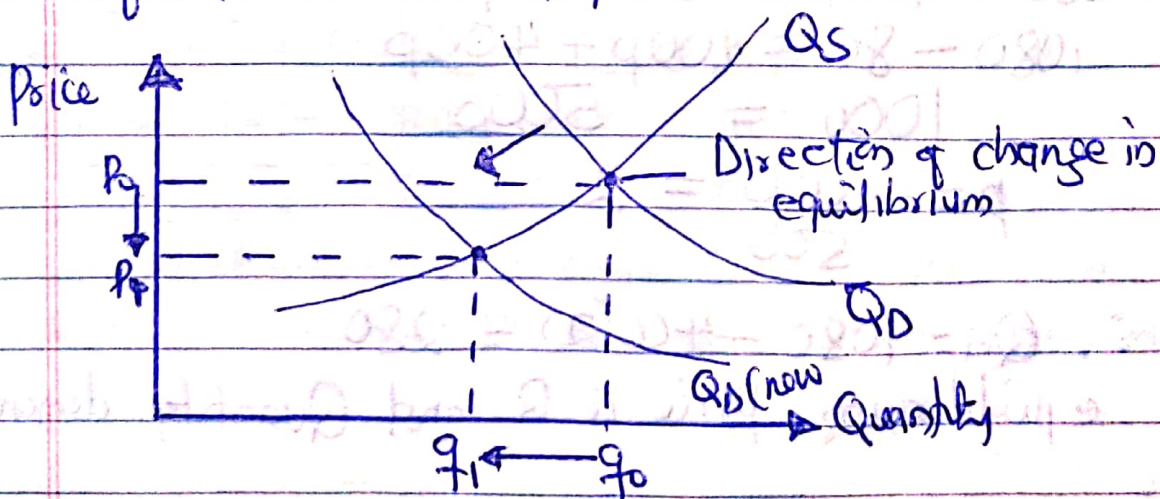
$$Q_s = 20R + 100P$$

$$Q_d = 4000 - 100P + 10I$$

2) Effect of an increase in rainfall



(b) Effect of decrease in disposable income



④ Suppose the demand for trips by taxi is given by the equation  $Q_d = 1000 + 50G - 4E - 400p$ . The supply of trips by taxi is given by the equation  $Q_s = 200 - 30G + 100p$ .

① On a graph draw the supply and demand curves for trips by taxi when  $G = 4$  and  $E = 30$ . Find equilibrium taxi fare.

② Solve for equilibrium taxi fare in general case, that is, when do not know  $G$  and  $E$ . Show how the equilibrium taxi fare changes as  $G$  and  $E$  changes.

ANSWER

$$Q_d = 1000 + 50G - 4E - 400p$$

$$Q_s = 200 - 30G + 100p$$

at  $G = 4$  and  $E = 30$

$$Q_d = 1000 + 50(4) - 4(30) - 400p$$

$$Q_d = 1080 - 400p$$

$$Q_s = 200 - 30(4) + 100p$$

$$Q_s = 80 + 100p$$

At equilibrium  $Q_d = Q_s$

$$1080 - 400p = 80 + 100p$$

$$1080 - 80 = 100p + 400p$$

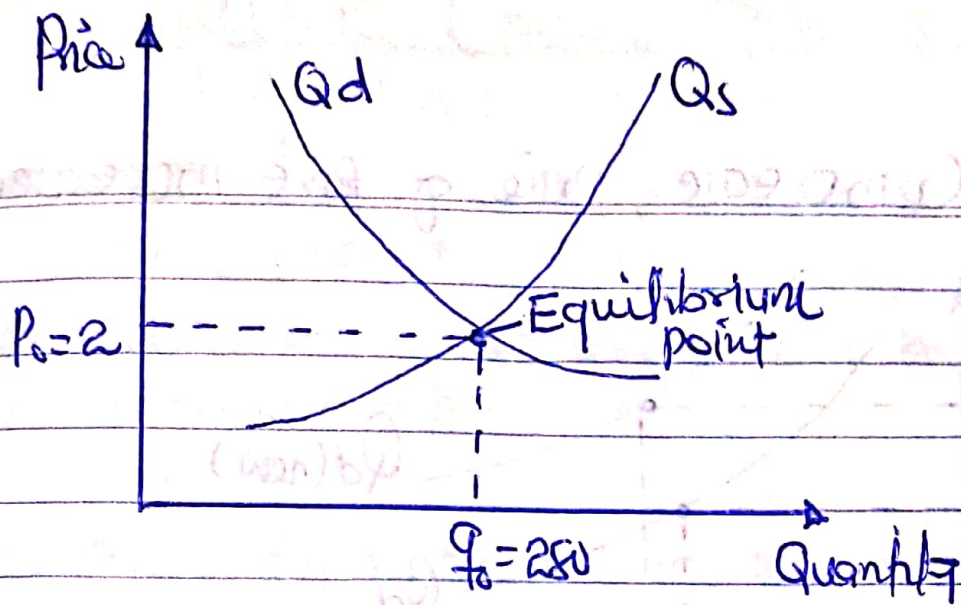
$$1000 = 500p$$

$$p = \frac{1000}{500} = 2$$

$$\therefore Q_d = 1080 - 400(2) = 280$$

At equilibrium price is 2 and Quantity demanded is 280

①⑥



∴ Equilibrium taxi fare is 2

$$Q_d = 1000 + 50G - 4E - 400p$$

$$Q_s = 200 - 30G + 100p$$

At equilibrium

$$Q_d = Q_s$$

$$1000 + 50G - 4E - 400p = 200 - 30G + 100p$$

$$-400p - 100p = 200 - 1000 - 30G - 50G + 4E$$

$$-500p = -800 - 80G + 4E$$

$$p = \frac{800}{500} + \frac{80}{500}G - \frac{4}{500}E$$

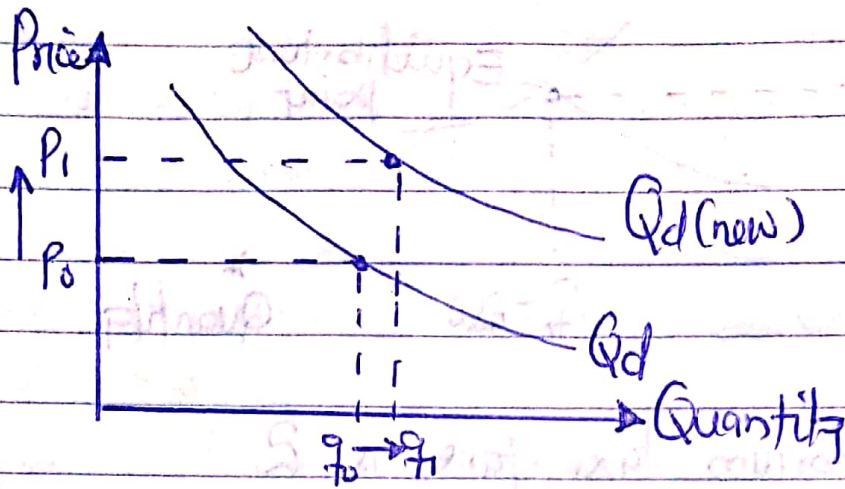
$$p = 1.6 + 0.16G - 0.002E$$

Hence the equilibrium taxi fare is given by

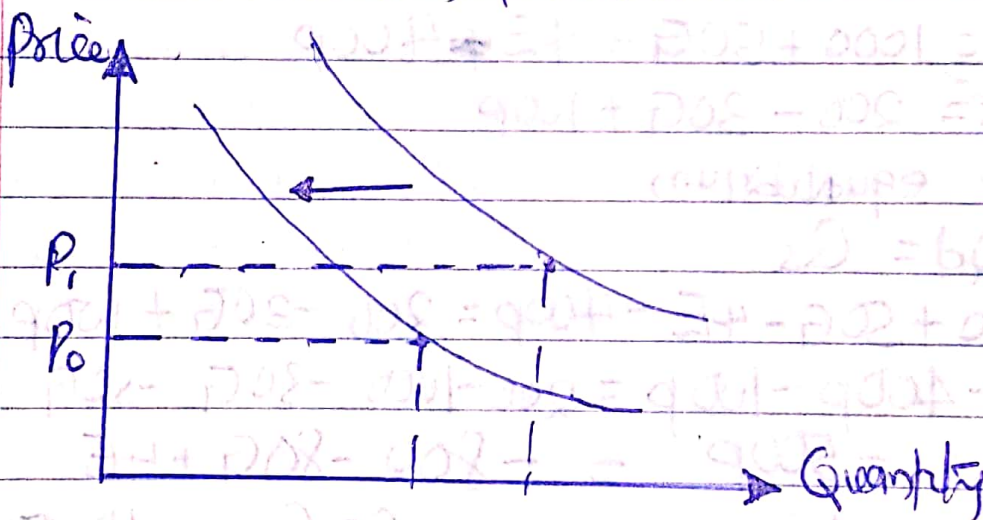
$p = 1.6 + 0.16G - 0.002E$  and an increase in  $G$  results in increase in fare and vice versa where an

increase in  $E$  results in decrease in fare and vice versa

ie. if  $Q_d$  increase, price of fibre increases



When  $E$  increases, price, decreases



# 2015 (Exams) Multiple Choice Questions

Answer all questions in the answer Booklet provided

- ① Economics is the study of:
- Ⓐ How to produce most goods for the most people
  - Ⓑ How to do business in the economy
  - Ⓒ How people deal with scarcity ✓
  - Ⓓ The equitable distribution of Society's income and wealth

- ② Scarcity arises when our
- Ⓐ Resources exceed our wants
  - Ⓑ Resources are limited
  - Ⓒ Wants exceeds our resources
  - Ⓓ Wants are unlimited

- ③ Opportunity Cost arise in production because
- Ⓐ Resources are Unlimited
  - Ⓑ Resources must be shifted away from producing one good in order to produce another
  - Ⓒ The monetary Costs of only a few resources are zero
  - Ⓓ Wants are limited in Society

- ④ If the economy is producing a combination of goods inside its production possibilities frontier, then
- Ⓐ Workers are on vacation
  - Ⓑ a significant number of workers have little education
  - Ⓒ Some resources are being wasted
  - Ⓓ Technology must improve before output can increase

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⑤ Normative economics problems \_\_\_\_\_ based on

- \_\_\_\_\_ @ Positive statements, fact  
Ⓐ Opinions, personal values Ⓒ Positive statements, values  
Ⓓ Opinions, facts

⑥ From 8pm to 10pm, Eme can go for a prayer meeting, study, or watch a movie. Suppose that Eme decides to go to the prayer meeting but thinks that, if she did not go to the prayer meeting, she would have watched a movie.

- The opportunity cost of attending the prayer meeting is  
Ⓐ Studying Ⓑ Watching movie and studying Ⓒ Watching movie  
Ⓓ Two hours of time

⑦ Which of the following might be considered to be a characteristic of a planned economy?

- Ⓐ All income is completely evenly distributed  
Ⓑ Price is relatively unimportant as a means of allocating resources.  
Ⓒ Goods and services produced reflect consumer sovereignty  
Ⓓ There is no incentive for people to work.

⑧ One of the following is a natural resource

- Ⓐ Capital Ⓑ Entrepreneur Ⓒ Land Ⓓ Labour

9) ~~A consumer~~ If the price of crude oil falls, equilibrium price of benzene \_\_\_\_\_ and equilibrium quantity of benzene \_\_\_\_\_.  
a) Falls; increases b) Falls; decreases  
c) Rise; increase d) Rise; increases.

10) A consumer draws a scale of preference because he has  
a) limited wants b) to minimize satisfaction c) unlimited resources  
d) to prioritise his wants.

11) A perfectly inelastic demand exists if a 10 percent change in the price of a good results in a percentage change in quantity demanded that is

a) Equal to 0 b) Greater than 0 but less than 10  
c) Equal to 10 d) Greater than 10 but less than infinity

12) When a change in the price of a good causes a change in the quantity of the good demanded because the relative prices of other goods change, this is best attributed to the

a) Income effect b) Substitution effect c) production effect  
d) Complement effect.

13) A particular good can be classified as a normal good if an increase in buyer's income causes  
a) an increase in demand b) A decrease in demand  
c) An increase in quantity demanded d) A decrease in quantity demanded.

14) The demand curve for the product sold by a firm in a perfectly competitive market is

- (a) Unit elastic
- (b) Perfectly elastic
- (c) Perfectly inelastic
- (d) Fairly elastic

15) A perfectly competitive firm will continue producing in the short run as long as it can cover its

- (a) Total cost
- (b) Average total cost
- (c) Average Variable cost
- (d) Marginal cost.

16) The average revenue received by a firm in a perfectly competitive market

- (a) Increases with quantity of output sold.
- (b) Decreases with quantity of output sold.
- (c) Is greater than the market price.
- (d) Is equal to the market price.

17) Average revenue for a monopolist is

- (a) Greater than price
- (b) Less than price
- (c) Greater than marginal revenue
- (d) Equal to marginal revenue.

18) Demand-pull inflation may be caused by

- (a) An increase in cost
- (b) A reduction in government spending
- (c) Reduction in interest rates
- (d) An outward shift in aggregate supply.

19 Inflation (a) Always reduces the cost of living

(b) Always reduces the standard of living

(c) Reduces the prices of output (d) Reduces the purchasing power of the currency.

20 An increase in aggregate demand is more likely to lead to demand-pull inflation if

(a) Aggregate supply is perfectly elastic

(b) Aggregate supply is perfectly inelastic

(c) Aggregate supply is unit elastic

(d) Aggregate supply is fairly elastic

21 Which would be considered an investment according to economists? (a) the purchase of newly issued shares of stock in Microsoft (b) the construction of a new computer chip factory by Intel (c) the resale of shares originally issued by the General Motors Corporation (d) the sale of a retail department store building by Sears to Canadian Tire

22 Which is a primary use for national income accounting?

(a) It provides a basis for assessing the performance of the economy.

(b) It measures economic efficiency in specific industries

(c) It estimates expenditures on non-production transactions

(d) It analyzes the cost of pollution to the economy

(23)

- 23) Nominal GDP is  A Not adjusted for inflation  
 B Adjusted for inflation  C Adjusted for interest rate  
 D Valued at constant base-year price

- 24) Which of the ff is a primary function of money?  
 a to serve as an encouragement to work  
 b to serve as a unit of account  
 c to raise funds for the government  
 d to reduce the burden of excessive imports

- 25) The fact that using money avoids the double coincidence of wants necessary in a barter economy illustrates which function of money?  a Unit of account  b medium of exchange  
 c store of value  d source of liquidity

- 26) Which of the ff is a tool that is used by the Fed to control the quantity of money?  a Open market operations  
 b real interest rate  c government expenditure multiplier  
 d excess reserves

- 27) Depository institutions undertake all the ff. activities, except:  a Create liquidity  b print money  c poor risk  
 d minimize the cost of monitoring borrowers

28) Which of the following is money?

- a) Checks in the checkbook    b) checking deposits  
c) Credit cards    d) All of the above are money

29) To maximize its revenue,

- a) a firm facing inelastic demand should always raise its price  
b) a firm facing elastic demand should always raise its price  
c) a firm should always charge the highest price possible regardless of the elasticity of demand  
d) None of the above

30) A demand curve can shift because of changing

- a) income    b) price of related goods    c) taste    d) All of the above.

# PRINCIPLE OF ECONOMICS

## THE UNDISPUTED PRE-QUIZ

① In a free Market system,  
a) Government intervene b) Government plans products  
c) Government interfere d) prices adjust to reconcile  
scarcity and desires.

② When a market is in equilibrium,  
a) Quantity demanded equals quantity supplied  
b) Excess demand and excess supply are zero  
c) The market is cleared by the equilibrium price  
d) All of the above.

③ If a price increase of good A increases the quantity  
demanded of good B, then good B is a  
a) Substitute good b) Complementary good  
c) Inferior good d) Bargaining good

④ Scarcity arises when our  
a) Resources exceed our wants  
b) Resources are limited  
c) Wants exceed our resources  
d) Wants are limited unlimited

⑤ If, as people's incomes increase, the quantity demanded of a  
good decreases, the good is called.  
a) Normal good b) Inferior good c) Substitute good d) Complement good

6) The three groups of decision makers in the economy are

- a) Households, business firms, and banks
- b) Households, business firms, and governments**
- c) Business firms, banks, and foreign traders
- d) Households, governments, and banks.

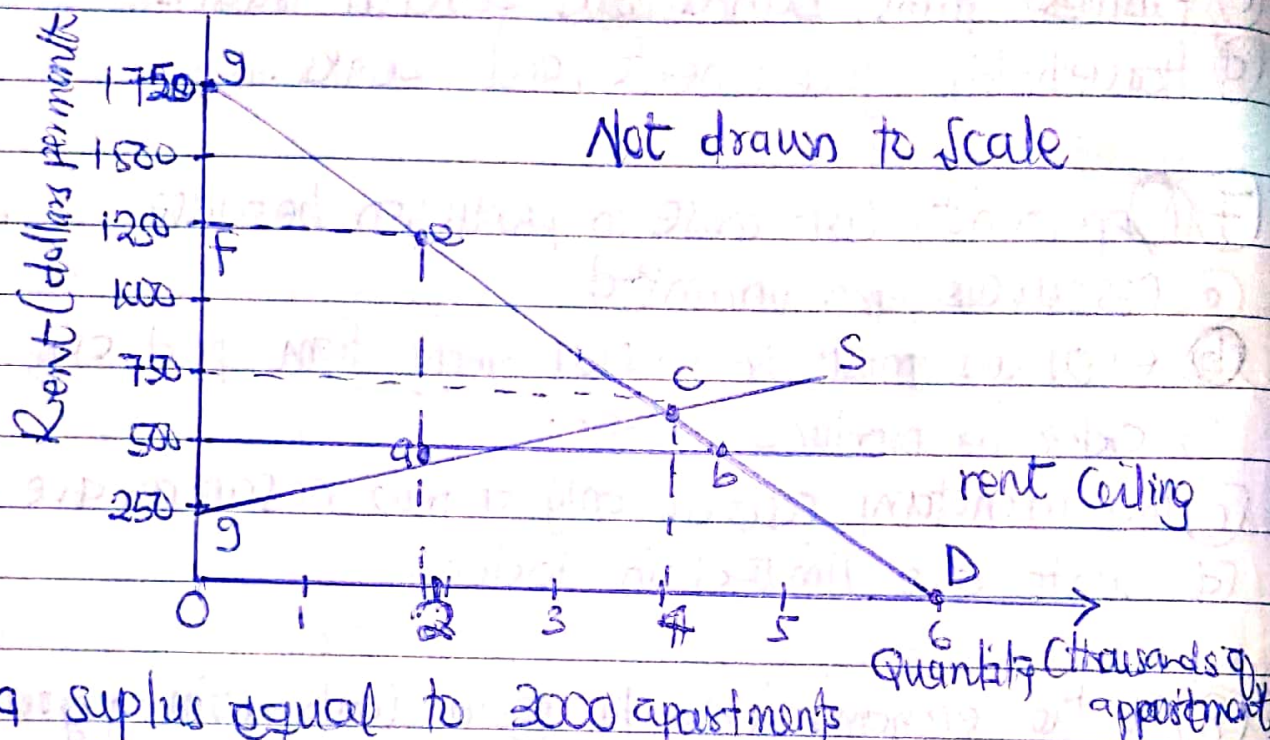
7) Opportunity Cost arise in production because

- a) resources are unlimited
- b) resources must be shifted away from producing one good in order to produce another.**
- c) the monetary costs of only a few resources are zero.
- d) wants are limited in society.

8) If the economy is producing a combination of goods, inside its production possibilities frontier, then

- a) workers are on vacation
- b) a significant number of workers have little education
- c) some resources are being wasted**
- d) technology must improve before output can increase

9) The figure below shows the demand and supply curves for housing in City A. What would be the effects of a rent ceiling equal to \$500 per month?



- (a) a surplus equal to 2000 apartments
- (b) a shortage equal to 250 apartment
- (c) a shortage equal to 3000 apartments
- (d) nothing because the rent ceiling has no effect on the equilibrium price and quantity

10) To maximize its revenue,

- (a) a firm facing inelastic demand should always raise its price
- (b) a firm facing elastic demand should always raise its price
- (c) a firm should always charge the highest possible regardless of the elasticity of demand
- (d) None of the above.

11) The price elasticity of demand for wheat is  $-0.42$ . A dry season cuts the supply of wheat. What will happen to the farmer's total revenue?

- a) The total revenue will increase
- b) The total revenue will not change
- c) The total revenue will decrease
- d) None of the above.

12) A minimum wage set above the equilibrium wage will  
a) have no effect because the equilibrium level of employment is not affected by a minimum wage above the equilibrium wage

- b) Create a surplus of labour.
- c) Create a shortage of labour.
- d) Create a lower wage rate for skilled workers than for unskilled workers.

13) The demand for AMS' GPS is given by the equation  $P = 30 - 3Q$ . If AMS wishes to maximize the income they receive from GPS sales, what price should they set per one GPS?

- A) 9
- B) 15 ✓
- C) 21
- D) 27

14 Normative economic forms \_\_\_\_\_ based on \_\_\_\_\_

- (a) Positive statements, facts
- (b) Opinions, personal values
- (c) Positive statements, values
- (d) Opinions, facts

15 A demand curve can shift because of changing

- (A) income (B) price of related goods (C) taste (D) All of the above

16 If the price of crude oil falls, equilibrium price of benzene \_\_\_\_\_ and equilibrium quantity of benzene \_\_\_\_\_

- (A) Falls; increases (B) Falls; decreases (C) Rise; increase
- (D) Rise; increases

17 From 8 p.m. to 10 p.m., Feme can go for a prayer meeting, study, or watch a movie. Suppose that Feme decides to go to the prayer meeting but thinks that, if she did not go to the prayer meeting, she would have watched a movie. The opportunity cost of attending the prayer meeting is

- (A) Studying (B) Watching movie and studying
- (C) Watching movie (D) Two hours of time.

18 Which of the ff. might be considered to be a characteristic of a planned economy?

- (A) all income is completely evenly distributed

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(5)

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- 17 From 8 p.m. to 10 p.m., Eme can go for a prayer meeting, study, or watch a movie. Suppose that Eme decides to go to the prayer meeting but thinks that, if she did not go to the prayer meeting, she would have watched a movie. The opportunity cost of attending the prayer meeting is

- (A) Studying
- (B) Watching movie and studying
- (C) Watching movie
- (D) Two hours of time.

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(5)

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- (a) Positive statements, facts
- (b) Opinions, personal values
- (c) Positive statements, values
- (d) Opinions, facts

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- (C) Watching movie
- (D) Two hours of time.

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- (C) taste
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- (A) all income is completely evenly distributed

(5)

③ price is relatively unimportant as a means of allocating resources

④ goods and services produced reflect consumers' sovereignty

⑤ there is no incentive for people to work.

⑱ One of the following is a natural resource,

① Capital    ② Entrepreneur    ③ Land    ④ Labour

⑳ If a commodity has perfectly inelastic demand, then its elasticity coefficient is.

① One    ② Zero    ③ Infinity    ④ Large.

### INDICATE BY WRITING TRUE / FALSE

⑳ Macroeconomics focuses on the behaviour of economic agents such as the consumer, a business firm, or a specific market

FALSE

㉑ Suppose your friends take you out for dinner on your birthday and you have a much better time than you would have had doing anything else. There is still an opportunity cost, even though they will not let you pay for anything

TRUE

②3 All Giffen goods are inferior goods TRUE

②4 An increase in the price for beef will cause a fall in the supply of hide FALSE

②5 Salt as a good has an inelastic demand TRUE

②6 Maximum price legislation has "promotion sales" as one of its consequences FALSE

②7 Education is a pure public good FALSE

②8 A simultaneous increase in demand and supply of gold by the same proportion will lead to an increase in both equilibrium price and equilibrium quantity FALSE

②9 A resource is scarce if the supply exceeds demand at zero price FALSE

③0 Positive economics studies objective explanations of the workings of the economy. TRUE

BROUGHT TO YOU BY: PASCO KING

# 2017 QUIZ (30 marks)

- ① Economics is the study of :
- Ⓐ How to produce most goods for the most people
  - Ⓑ How to do business in the economy.
  - Ⓒ How people deal with scarcity
  - Ⓓ The equitable distribution of society's income and wealth
- ② Opportunity costs arise in production because
- Ⓐ Resources are limited
  - Ⓑ Resources must be shifted away from producing one good in order to produce another
  - Ⓒ The monetary costs of only a few resources are zero.
  - Ⓓ Wants are limited in society
- ③ Normative economics forms \_\_\_\_\_ based on \_\_\_\_\_
- Ⓐ Positive statements, facts
  - Ⓑ Opinions, personal values
  - Ⓒ Positive statements, values
  - Ⓓ Opinions, facts
- ④ Which is not an essential condition for an economic problem to arise? Ⓐ Unlimited wants Ⓑ Use of money
- Ⓒ Scarcity of resources
  - Ⓓ Alternative uses of scarce resources
- ⑤ Which of the following is Microeconomics concerned with?
- Ⓐ the size of national output
  - Ⓑ the level of employment
  - Ⓒ Changes in general level of prices
  - Ⓓ None of the above.

⑥ Which of the following might be considered to be a characteristic of a planned economy?

- Ⓐ All income is completely evenly distributed
- Ⓑ Price is relatively unimportant as a means of allocating resources
- Ⓒ Goods and services produced reflect consumer sovereignty
- Ⓓ There is no incentive for people to work.

⑦ This is an assumption of the law of demand

- Ⓐ Price of the commodity should not change
- Ⓑ Quantity should not change
- Ⓒ Supply should not change
- Ⓓ Income of consumers should not change

• ⑧ The following are causes of shift in demand EXCEPT

- Ⓐ Change in income
- Ⓑ Change in price
- Ⓒ Change in fashion
- Ⓓ change in price of substitutes

⑨ Which of the ff. is a normal demand function?

- Ⓐ  $Q + 4P = 20$
- Ⓑ  $Q = 35 + 3P$
- Ⓒ  $Q - 2P - 15 = 0$
- Ⓓ  $5P - Q = 4$

- 10) Price and demand are positively correlated in cases of
- (a) Necessities
  - (b) Comfort goods
  - (c) Giffen goods
  - (d) Luxury goods

11) When a change in the price of a good causes a change in the quantity of the good demanded because the relative prices of other goods change, this is best attributed to the

- (a) Income effect
- (b) Substitution effect
- (c) Production effect
- (d) Complement effect

12) A minimum wage set above the equilibrium wage will

- (a) Have no effect because the equilibrium level of employment is not affected by a minimum wage above the equilibrium wage
- (b) Create a surplus of labors
- (c) Create a shortage of labors
- (d) Create a lower wage rate for skilled workers than for unskilled workers

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- 13) If 100 units of product K are sold at a unit price of GH 10 and 75 units of product K are sold at a unit price of GH 15, one can conclude that in this price range:
- a) Demand for product K is elastic
  - b) Demand for product K is inelastic
  - c) Demand for product K will shift to the right
  - d) Consumers are sensitive to price changes of product K

- 14) Total revenue falls as the price of a good increases if price elasticity of demand is
- a) Elastic
  - b) Inelastic
  - c) Unitary elastic
  - d) Zero

- 15) Which of the ff. would be an example of a maximum price legislation?
- a) Subsidies for apartment/hotel rent in major university campuses
  - b) Price supports for agricultural products
  - c) Minimum-wage laws for unskilled workers
  - d) Limits on interest rates charged by banks on lending

16) If a price floor is imposed by the government in a market,

- (A) Shortage of the commodity will develop
- (B) The quantity supplied will exceed the quantity demanded
- (C) The free-market equilibrium price and quantity will be realized.
- (D) The good will not be produced.

17) If price elasticity of demand is very low, it shows that the commodity is

- (A) Luxury
- (B) Necessity
- (C) Has little importance in total budget
- (D) Expensive

18) What best explains a shift in market supply curve to the right?

- (A) An advertising campaign is successful in promoting the good
- (B) A new technique makes it cheaper to produce the good
- (C) The government introduces a tax on the good
- (D) The price of raw materials increases

- 19) Contraction of demand is the result of
- (A) Decrease in the number of consumers
  - (B) Increase in the price of the commodity concerned
  - (C) Increase in the prices of other goods
  - (D) Decrease in the income of purchasers

20) The price elasticity of demand for a soccer match involving UMass SRC and Lecturers is 2. If the price of a ticket to the match increased by 10%, the quantity of tickets demanded will;

- (A) Decrease by 10%
- (B) Increase by 20%
- (C) Increase by 10%
- (D) Decrease by 20%

### INDICATE BY WRITING TRUE/FALSE

21) In the circular flow diagram, factors of production are traded in the product market FALSE

22) All inferior goods are Giffen goods but not all Giffen goods are inferior goods FALSE

23) A supply curve shows the minimum price producers are willing to charge TRUE

(24) The equilibrium is the price at which there is no surplus or shortage in the market. TRUE

(25) A simultaneous increase in demand and supply of gold by the same proportion will lead to an increase both equilibrium price and equilibrium quantity. FALSE

(26) A decrease in the price for beef will cause a fall in the price of hide, all other things being equal. FALSE

(27) In the case of an inferior good, the demand curve is downward sloping. TRUE

(28) Sale by tender is akin to silent auction sale. TRUE

(29) In a free market system, factors of demand and supply will determine what, when and how much to produce. TRUE

(30) A resource is scarce if the supply exceeds demand at a zero price. FALSE

SECTION B: Provide short and concise answers.

Answer all questions on the question paper.

31) In what two <sup>ways</sup> can there be abnormal demand curve? [2 marks]

Soln

- ✓ a) Infexic goods
- ✓ b) changes in price
- ✓ c) changes in production

32) Enumerate 3 importance of price elasticity of demand [3 Marks]

Soln

- a) Pricing policy of a producer. Every producer aims at making more sales in order to maximize profit.
- b) Government tax policy. If the government wants to increase its tax revenue then the government must impose tax on goods like ~~pete~~ petroleum product, alcoholic beverages which has inelastic demand.
- c) It helps in determining the expenditure of the consumer.
- d) It helps in controlling the consumption of harmful goods.

33) Explain "Price Discrimination" [2 marks]

Soln

Price discrimination occurs when the same commodity is sold at

more than one price, for example, an operation to cure a particular form of disease may be sold to a rich person for \$50 million and to a poor person for \$5 million. It occurs if very similar products are sold at prices that are in different ratios to marginal cost.

34) State 3 conditions necessary for perfect competition to exist [3 marks]

Soln

- a) If all firms sell identical products.
- b) If all firms are price takers
- c) If all firms have relatively small market share.
- d) Freedom of entry and exit; this will require low sunk cost
- e) There is perfect information and knowledge

35) Briefly explain why firms in perfect competition earn only normal profit in the long run [3 marks]

Soln

Firms earn ~~enough~~ just enough profit to stay ~~in~~ the business and no more, because if they were to earn excess profits, other firms would enter the market and drive profits back down to the bare minimum.

36) State 2 causes of cost-push inflation [2 marks]

Soln (HIII) ✓

- a) High profits by entrepreneurs
- b) Increased wages
- c) Increase in indirect taxes
- d) Increasing cost of imported equipment and raw materials. (16)

37) Identify any 2 instruments used by the Central bank to control inflation [2 marks]

Soln (REMOVED) (BS-ROM)

① Open Market Operations (OMO)

② Bank Rates

③ Moral suasion ④ Reserve requirement

⑤ Selective Credit Control ⑥

38) Money serves as a "standard for deferred payment". Explain [2 marks]

Soln

Money serves as a standard of deferred payment because its value remains more or less stable. This refers to expressing of the value of debt. That is if people borrow today, then they can pay back their loan in the future in a way that is acceptable to the person who made the loan.

39) State 3 functions of the Central Bank [3 marks]

Soln

① It supervises and regulates activities of all financial institutions.

② It licenses all financial institutions in the country

③ It serves banks to the Commercial banks to hold the accounts of the Commercial banks and transfers them to other banks for them and lends money to them too.

④ The Central Bank of every nation issues the notes and coins.

17

© It holds the government overall accounts and deals with the government payments and receipts.

## CALCULATION QUESTION

SECTION C: Answer all questions in this section in the answer booklet.

40) Assuming that the pre-tax equations for demand and supply of fried rice from Freddie's Kitchen are:

$$Q_D = 120 - 6P$$

$$Q_S = 10 + 5P$$

a) What is the equilibrium price for fried rice? How many packs of fried rice will be bought and sold at that price? [4 marks]

b) Compute, illustrate and interpret the <sup>price</sup> elasticity of demand at the equilibrium point. [6 marks]

c) Assume the Government of Ghana fixes the price of fried rice at 9 cedis per pack? Is that a minimum or maximum price control? Using the equations, compute the quantity demanded and supplied at that price. Is there a shortage or surplus at Freddie's Kitchen? [4 marks]

d) Illustrate your answer in question c above graphically. [4 marks]

(18)

## Soln

@ Given the pre-tax equations for demand and supply of fried rice from Freddie's Kitchen.

$$Q_D = 120 - 6p \quad \text{and} \quad Q_S = 10 + 5p$$

Where  $Q_D$  = Quantity demanded and  $Q_S$  = Quantity supply

At Equilibrium,

$$Q_D = Q_S$$

$$120 - 6p = 10 + 5p$$

$$-6p - 5p = 10 - 120$$

$$-11p = -110$$

$$p = \frac{-110}{-11} = 10$$

Hence the equilibrium price  $p$  is 10 for fried rice

Now substitute  $p=10$  into  $Q_D$

$$Q_D = 120 - 6(10) = 120 - 60$$

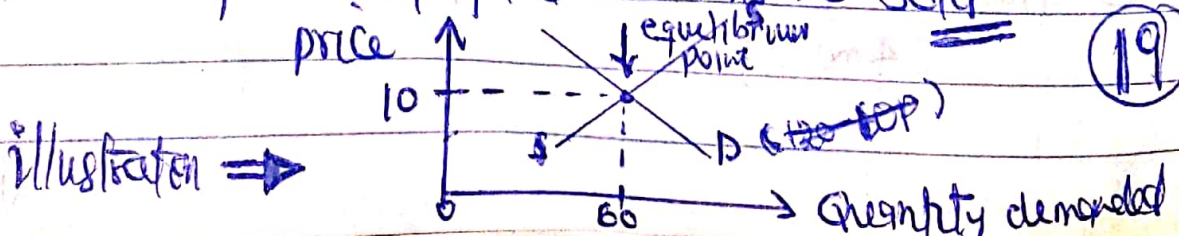
$$Q_D = 60 \text{ packs}$$

Hence the 60 packs of fried rice will be bought

Again put  $p=10$  into  $Q_S$

$$Q_S = 10 + 5(10) = 60 \text{ packs}$$

Hence 60 packs of fried rice will be sold



## ✓ Computation

⑥ Price elasticity of demand ( $e_d$ ) is given by

$$e_d = \frac{P}{Q_D} \cdot \frac{dQ_D}{dP} \quad \text{OR} \quad \frac{P}{Q_D} \cdot \frac{\Delta Q_D}{\Delta P}$$

$$\text{But } \frac{dQ_D}{dP} = \frac{d}{dP} [120 - 6P]$$

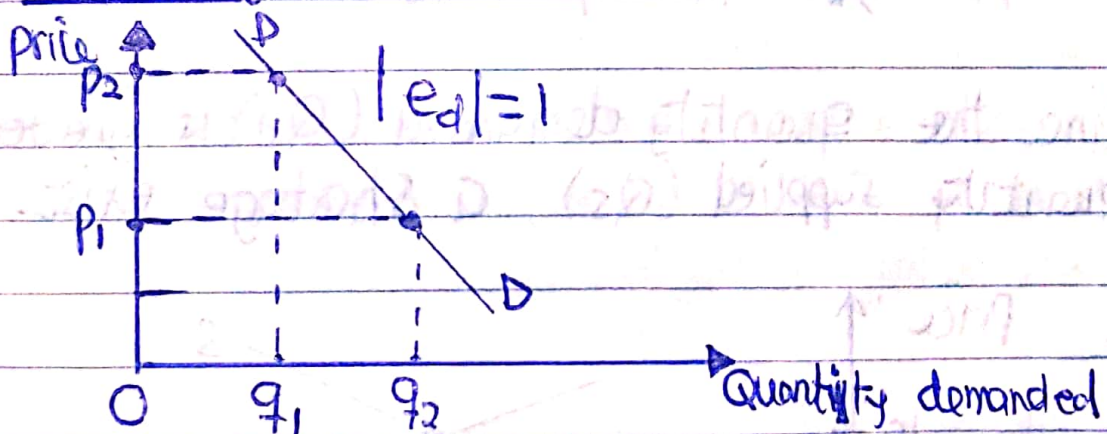
$$\frac{dQ_D}{dP} = -6, \quad P = 10, \quad Q_D = 60$$

$$e_d = \frac{10}{60} (-6) = -\frac{60}{60} = -1$$

$$e_d = -1$$

$$\therefore |e_d| = 1$$

## ✓ Illustration



## ✓ Interpretation

Since the price elasticity of demand is equal to 1, it means that, it is a unit elastic demand and hence the percentage in quantity demanded is equal to percentage in price.

②②

© If the Government of Ghana fixes the price of fried rice at 9 cedis per pack,

New Price become 9 cedis

So comparing the

It is a maximum price control because the fixed price is below the equilibrium price.

Equations

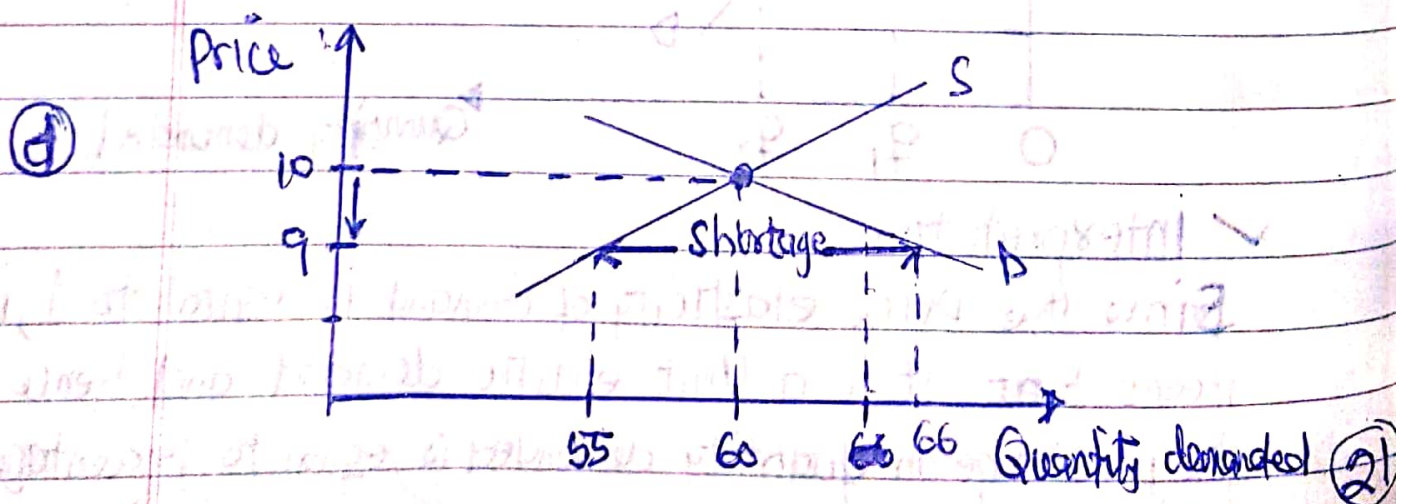
$$Q_D = 120 - 6P$$

$$Q_D = 120 - 6(9) = 120 - 54 = 66$$

$$\text{Also } Q_S = 10 + 5P \Rightarrow Q_S = 10 + 5(9) = 10 + 45 = 55$$

Hence the quantity demanded,  $Q_D$  is 66 and the quantity supplied at that price is 55

Since the quantity demanded ( $Q_D$ ) is greater than the quantity supplied ( $Q_S$ ), a shortage exist.



## EXTRA-OIL 2

① What is the difference between "demand" and "Supply"

Soln

| Demand   | Supply  |
|--|---|
| Demand is a list or schedule of all alternative quantities of a particular good that a buyer would be willing and able to buy at alternative prices per unit time. | Refers to the various quantities of goods that sellers or suppliers are willing to offer for sale at all alternative prices per unit of time. |

② Differentiate b/w "Demand schedule" and "Demand Curve"

Soln

| Demand schedule   | Demand Curve  |
|---|---|
| Demand schedule is tabular representation of the relationship between prices of commodities and their associated quantities demanded. | is a graphical representation of the relationship between prices of commodities and their associated quantities demanded. |

③ State the law of Demand

Soln

The law states that 'Ceteris paribus', the lower the price at

(22)

which a commodity is offered, the greater of it that is demanded and the higher the price, the smaller the quantity that a consumer would be willing to buy.

(4) List the factors that affect downward sloping

Soln

(i) substitution effect (ii) income effect

(5) Differentiate b/w normal and inferior good.

Soln

|     | Normal good  | Inferior good   |
|-----|--|---|
|     | A good in which an increase in income results in an increase in demand and vice versa. | A good in which an increase in income results in a decrease in quantity demanded. and vice versa. |
| eg. | rice, car, computer  | gari, second-hand clothes   |

(6) Differentiate b/w "change in quantity demanded" and "change in demand"

Soln

| Change in quantity demanded   | Change in demand  |
|---|---|
| a change in quantity demanded as a result of price change of the good | a change in the whole purchase plan. It is caused by factors other than change in the price of the goods. |

7) Differentiate b/w "Substitute goods" and Complementary goods" for two goods say, A and B.

Soln

| <u>Substitute good</u>   | <u>Complementary</u>   |
|--|--|
| If the price of good A increases, demand in good B also increases and vice versa | If price of good A increases, demand in good B decreases and vice versa. |

8) State 3 determinants of Supply

Soln

- Ⓐ Prices of inputs
- Ⓑ Prices of all other goods
- Ⓒ ~~Act of~~
- Ⓓ Acts of nature
- Ⓔ Number of sellers
- Ⓕ Government policy

9) State the law of Supply

Soln

The law of supply states that 'Ceteris paribus', the higher the price at which a commodity is offered, the greater of it that is supplied and the lower the price, the smaller the quantity that a producer would be willing to sell.

10) Define "Market"

Soln

A market is a place where buyers and sellers meet to negotiate price and trade.

24

11) Define "Equilibrium"

Soln

Equilibrium occurs at the intersection of the market supply and the market demand curves. This point of intersection is called the equilibrium point.

12) What is the difference between a "Surplus" and "a Shortage"

Soln

| Surplus  | Shortage  |
|--|---|
| occurs when the quantity supplied exceeds the quantity demanded at the going price | occurs when the quantity demanded is larger than the quantity supplied at the going price |

13) Mention 3 non-Market forces price determination

Soln

[HAT]

a) Haggling / Haggling b) Auction c) Tender

14) What do you understand by "elasticity of demand"?

Soln

Elasticity of demands means the measure of the quantity demanded to changes in price of a good as a result of a change in the price of the good itself, price of other goods and the income of the consumer.

15) Define "own-price Elasticity of demand"

Soln

It is defined as the responsiveness of the quantity demanded to a change in price in a given market, during a given period of time, *Ceteris paribus*.

16) Mention 4 determinants of own-price Elasticity of Demand

Soln [PANT]

- a) Nature of the Commodity b) Availability of substitutes  
c) Time frame d) proportion of Income spent on the good.

17) List the Types of Markets

Soln

[GF - LMC]

- a) Goods market d) Foreign exchange market  
b) Money market e) Capital or bonds Market  
c) Labour market

18) What happens if Super normal profits are made?

Soln

New firms will be attracted into the industry causing price to fall. If firms are making a loss then firms will leave the industry causing price to rise.

19) Define Monopoly

Soln

A market where there is only one seller of a particular good or service.

(26)

(20) Mention 4 characteristics of Monopoly

Soln

- (a) Only one single seller in the market. There is no competitor.
- (b) There are many buyers in the market.
- (c) The products does not have close substitutes.
- (d) Consumer's don't have perfect information.
- (e) The firm enjoys abnormal profits.

(21) List 2 advantages of monopoly

Soln

- (a) Avoids duplications and hence wastage of resources.
- (b) Monopolists may use price discrimination which benefits economically weaker sections of the society.
- (c) Due to the fact that monopolies make lot of profit it can be used for research and development and to maintain their status as a monopoly.

(22) List 3 disadvantages of monopoly

Soln

- (a) Poor level of service.
- (b) No consumer sovereignty.
- (c) Consumers may be charged high prices for low quality of goods and services.

(27)

Q3) Define "Perfect Competition"

Soln

Perfect Competition is a market structure where many firms offer a homogeneous product. Because there is freedom of entry and exit and perfect information, firms will make normal profits and prices will be kept low by competitive pressure.

Q4) Define Monopolistic Competition

Soln

is a market structure which combines elements of monopoly and competitive markets.

Q5) Define Inflation

Soln

The persistent rise in the level of prices and wages throughout an economy. It is determined by such indexes as the Consumer Price Index (CPI) and Producer Price Index (PPI).

Q6) List the types of inflation

Soln

[G-SIC] ↓

- a) <sup>Inflation</sup> Galloping <sup>Inflation</sup> b) Creeping inflation c) Suppressed inflation  
d) Imported inflation.

Q7) List the 2 ~~types~~ causes of inflation.

Ans: Demand-pull inflation, Cost-push inflation

28

28) Differentiate b/w Demand-pull and Cost-push inflation

Soln

| <u>Demand-pull</u>  | <u>Cost-push inflation</u>  |
|---|---|
| Defined as the increase in prices which results from an excess of demand over supply. | Describe a situation where rising prices are caused and sustained by rising cost of production. |

29) Mention 4 causes of Demand-pull inflation

Soln [DIET] OPIN

- a) Deficit financing
- b) Increased net export
- c) Expansion in money supply
- d) Terms of trade.
- e) Natural disasters
- f) price shocks.

30) Mention 4 causes of Cost-push inflation

Soln [HIII]

- a) High profits by Entrepreneurs
- b) Increased wages
- c) Increasing cost of imported equipment and Raw materials.
- d) Increase in indirect taxes

29

31 List 4 effects of Inflation [~~DIFFO~~]

Soln [DIFO]

a) Debtors gain b'cos the real value of their debt falls and where wages increase occur they pay their debt with small proportion of their incomes

b) Inflation encourages inefficient and ineffective firms to produce at a high cost.

c) Fixed income earners like the wage and salary earners and holders of shares with fixed dividends.

d) On the other hand businessmen who receive incomes in the form of profit margins, especially under demand pull inflation gain.

32 State 4 problems of "Trade by hoarder-hoaster"  
Soln [~~PIPP~~] [PIPU]

a) Problem of lending b) Problem of Saving

c) Indivisibility of some commodities d) Unit of exchange.

33 Define Money

Soln

Anything that is generally accepted as a medium of exchange for the payment of goods and services.

38

34) List 5 characteristics of Money [SRG-PH]  
Soln

- ✓ a) It must be Scarce
- ✓ b) It should be readily and generally accepted
- ✓ c) It should be recognisable
- ✓ d) It must not be readily counterfeited else it would lose its value
- ✓ e) It must be portable to transport
- ✓ f) It must be durable.
- ✓ g) It must be homogeneous

35) List the three Modern forms of money. [CPB] ↓

- a) Coins are shaped pieces of metal with a definite value
- b) Paper money or bank notes
- c) Bank Deposits.

36) List 4 functions of Money  
Soln [DEVA]

- a) As medium of exchange
- b) As unit of account
- c) As a store of value
- d) As means of deferred payment

31

37) List 3 importance of money

Soln

- ① Gives maximum satisfaction to people for work done.
- ② ~~The~~ use of money makes it possible to defer payments for goods and services which cannot be paid for today.
- ③ It encourages division of labour hence specialization.

38) Define Banking and List 5 types of banks

Soln

Banking is the processing of accepting deposits and giving out loans including monetary advisory to customers. A bank is therefore a place where the banking activities take place.

Types of banks

- ① The Central Bank
- ② Commercial Bank
- ③ Development bank
- ④ Rural banks
- ⑤ Other financial institutions.

39) Define Central Bank.

Soln

Is a government owned bank, which is financed and controlled by the government of a particular country.

40) ~~What do~~ How do you understand by "value of money"

Soln

We mean that it will buy in terms of goods and services. That is the amount of goods and services that money can afford.

4) Define Commercial Banks and List 3 functions of commercial banks

soln  
A financial institution that accept and keep deposits with the aim of making profit of their share holders.

Functions:

- a) They accept deposits eg. Saving deposits, ~~current account~~ <sup>time deposit</sup>
- b) They issue travellers cheques and Banker's drafts.
- c) They act as agents for their customers by making payment on their behalf.