



LITTORAL ECONOMICS TEACHERS ASSOCIATION (LETA)



General Certificate of Education Regional Mock Examination

APRIL 2021**ADVANCED LEVEL**

Subject Title	Economics
Paper No.	3
Subject Code No.	0725

1 HOUR 45MINUTES

INSTRUCTIONS TO CANDIDATES

Answer ANY THREE QUESTIONS. All questions carry equal marks.

- *You are advised to spend the first 15 minutes reading the paper,*
 - *In calculation, you are advised to show all the steps in your working,*
 - *You are reminded of the necessity for good English and orderly presentation in your answers,*
- Graph papers & noiseless simple calculators are needed.*
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1. Economics is defined as a social science.... Social sciences, which include for instance Politics, Sociology as well as Economics, differ from the natural sciences in a number of ways...
It is often said that Economics cannot be a science because no two economists agree completely on any economic problem. This is an exaggeration, but it is certainly true that economists disagree...

Source: Adapted from Stanlake's *Introductory Economics*, SJ Grant, 7 edition pages 4 & 5

- (a) Why is Economics considered as
- (i) A science? (2marks)
 - (ii) A social science? (2marks)
- (b) State four ways in which Economics differs from the natural or physical sciences like Chemistry and Physics. (4marks)
- (c) From the underlined phrase, what is;
- (i) Positive Economics? (3marks)
 - (ii) Normative Economics? (3marks)
- (d) Name any three tools used by Economists to analyse economic concepts (3marks)
- (e) List the basic economic problems. (3marks)

2. This question is based on the table below which represents the market situation for maize produced by some common initiative group. Theory points out that the market price for maize will always fluctuate, maize being an agricultural product.

Price per ton of maize (000FCFA)	Quantity demanded (tons)	Quantity Supplied (tons)
30	700	100
40	600	200
50	500	300
60	400	400
70	300	500
80	200	600
90	100	700

- (a)
- (i) Using graph paper, plot the market demand and supply functions for maize produce by this Common Initiative Group (6marks)
 - (ii) What is the equilibrium market price and why? (3marks)
- (b) Suppose that the government imposes a tax of 20,000FCFA per ton of maize , what will be
- (i) The new equilibrium price and quantity. (3marks)
 - (ii) How much revenue will the government receive in tax? (2marks)
- (c) If in the original situation in (a) above, the government imposes a price floor of 80,000FCFA per ton of maize, calculate the total expenditure to the government to ensure that this policy works (3marks)
- (d) List three reasons why the price of maize fluctuates. (3marks)

3. Oligopolists and Monopolists have extensive market power that is why they carry out the skimming pricing policy. Much of it is due to the heavy restrictions to entry into these markets, that can however be reduced by deregulation. In this light the cost and revenue situation facing an Oligopolist looks as follows

Price per kg in FCFA	Quantity (kg)	Total Fixed Costs in FCFA	Total Variable Costs in FCFA
20	20	200	260
18	30	200	370
16	40	200	400
14	50	200	425
12	60	200	460
10	70	200	500
08	80	200	680

- (a) Determine the equilibrium price and output for this firm. (8marks)
- (b) Due to deregulation the firm is forced to break even in the long run. What will be the new price and output? (2marks)
- (c) Define the following
- (i) Deregulation
 - (ii) Market power
 - (iii) Brand loyalty
 - (iv) Skimming pricing. (2 x 4 = 8marks)
- (d) List two characteristics of Perfect Competition (2marks)

4. Commercial banks are profit making financial institutions owned by shareholders. These banks at any one point in time may owe their customers as well as their customers may owe them. Commercial banks are guided by three main goals which are always in conflicts. The ability of a Commercial Bank to grant loan is often limited by inadequate collateral securities or the lack of a surety by the willing borrowers. Money substitutes today have, however, limited the number of times customers visit these banks. As of 31st December 2020 the balance sheet of XYZ PLC bank had the following balance sheet. Figures are in million of FCFA.

LIABILITIES		ASSETS	
Sight Deposits	200	Cash	35
Time Deposits	80	Operating balances at the Central bank	41
Capital	100	Money at call & short notice	40
		Treasury Bills	36
		Special Deposits	25
		Investment	100
		Loans	103
TOTAL LIABILITIES	380	TOTAL ASSETS	380

- (a) Which economic terms are used to describe the following as mentioned in the passage
- (i) Items that the bank owes her customers (1mark)
 - (ii) Items that the customer owe the bank (1mark)
- (b)
- (i) State three main goals of commercial banks. (3marks)
 - (ii) List three ways this bank can use to create credit. (3marks)
- (c) Calculate
- (i) The cash ratio of this bank (3marks)
 - (ii) The illiquid asset ratio for this bank (3marks)
- (d)
- (i) Distinguish between a Surety & a Collateral security. (4marks)
 - (ii) Define the term money substitute and give an example. (2marks)

5. Consider a firm with an initial existing capital stock worth 1,200 million FCFA replaced yearly at the rate of 5%. The total output constituting the sales (demand) of goods worth 400 million FCFA which varies with time as shown on the table below.

Year (Period)	Output(Sales) in Million FCFA	Desired Capital in Million FCFA
1	400	1,200
2	480	1,440
3	520	1,560
4	540	1,620
5	552	1,656
6	560	1,680
7	560	1,680
8	540	1,620

- a)
- (i) Determine the value of the *Accelerator*.
 - (ii) State the Capital Output Ratio (COR). (2+2=4marks)
- b) Construct tables for: *Existing Capital*, *Replacement Capital*, *Net Capital* and *Gross Capital* for the various years. (8marks)
- c) Briefly compare the *accelerator effects* in years 2 and 7. (4marks)
- d) State any four limitations of the *Accelerator Principle*. (4marks)

END!