

ECONOMICS 3

0725

CAMEROON GENERAL CERTIFICATE OF EDUCATION BOARD

General Certificate of Education Examination / Technical and Vocational Education Examination

JUNE 2020

ADVANCED LEVEL

Subject Title	ECONOMICS
Paper No./Title	Paper 3
Subject Code No.	0725

1 Hour 45 minutes

INSTRUCTIONS TO CANDIDATES

Answer ANY THREE questions. All questions carry equal marks.
You are advised to spend the first fifteen minutes reading the paper.
In calculations 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.

Calculators are allowed.

1. This question is based on the passage below:

The existence of internal economies of scale provides a major force encouraging firms to grow in size. However there are different ways in which firms can grow. Broadly these can be classified as internal growth or external growth. When firms grow by amalgamation, there is a mutual agreement between them and in this case it is called merger. Growth can also occur when one firm acquires control of another firm by obtaining at least 51% of its equity.

Source: Adapted from Introductory Economics by Barry Harrison. Page 70

- (a) Define the following as used in the passage:
- (i) Internal economies of scale. (2 marks)
 - (i) Equity. (2 marks)
 - (iii) Merger. (2 marks)
- (b) List four internal economies of scale. (4 marks)
- (c) What economic term can be used to describe the underlined phrase? (2 marks)
- (d) Give two ways by which a firm can grow internally. (4 marks)
- (e) Name two types of mergers. (4 marks)

2. The following is an individual's demand function for apples in a certain daily market: $Q_d = 1200 - P$, where Q_d is quantity demanded in units and P is price in FCFA.

- (a) (i) Briefly define an individual's demand function. (2 marks)
- (ii) Establish the individual's demand schedule for a price range of 1000FCFA to 500FCFA, given that price of apples is changing by 100FCFA. (5 marks)
- (b) Now assume that there are 10 buyers of apples in the market referred to in (a) above,
- (i) Define a market demand function. (2 marks)
 - (ii) Derive a market demand function for apples in this market. (3 marks)
 - (iii) Determine the price per apple that will enable producers to sell 5,000 apples. (4 marks)
- (c) State two concepts which can be used to explain why more apples will be demanded at a lower price than at a higher price. (4 marks)

3. Competition is necessary for the market system to operate in consumers' interest... Without competition, consumers have no choice in what they buy and producers have little incentive in meeting consumers' needs... The degree of competition that exists will often influence how producers operate.

Source: Discovering Economics. Microeconomics, edited by David Gray, Page 60.

- (a) State two ways in which the market operates in consumers' interest. (2 marks)
- (b) State three benefits of competition. (3 marks)
- (c) List three characteristics that distinguish perfect competition from monopolistic competition. (3 marks)
- (d) State four features of perfect competition. (4 marks)
- (e) With the aid of a diagram, illustrate the situation of:
 - (i) a loss making firm in perfect competition. (4 marks)
 - (ii) a profit making firm in perfect competition. (4 marks)

4. This question refers to the table below which shows the relationship between the annual rates of change in the general price level and the annual rates of change in unemployment of a given country.

Annual rates of change in the general price level (%)	Annual rates of change in unemployment (%)
40	5
35	6
30	8
25	10
20	13
15	17
10	21
5	26
0	35
-5	40

- (a) (i) Using a graph paper, plot the information from the above table. (4 marks)
(ii) What name is given the curve in (a) (i) above? (2 marks)
(iii) State the relationship that exists between these two variables as depicted by the curve. (2 marks)
(b) Define the natural rate of unemployment (NAIRU). (2 marks)
(c) On the graph in a(i) above, indicate NAIRU. (2 marks)
(d) Enumerate: (i) four benefits of inflation to an economy. (4 marks)
(ii) four costs of unemployment to society. (4 marks)

5. In a closed economy without government where the usual assumptions of the basic Keynesian macroeconomic model apply, consumption is always three quarters of disposable income and consumers have the potential of always consuming one hundred billion FCFA when the size of their current income is zero. All investment expenditures are exogenous and initially planned investment is 3,000 billion FCFA.

- (a) (i) Define disposable income. (2 marks)
(ii) Calculate the value of disposable income. (2 marks)
(b) (i) Derive the consumption function of this economy. (2 marks)
(ii) Determine the value of total consumption in this economy. (2 marks)
(iii) List three factors that determine consumption. (3 marks)
(c) If in the original situation income tax was introduced at a constant rate of $\frac{1}{5}$ at all incomes together with a planned government spending of two hundred billion FCFA:
(i) Calculate the equilibrium level of income. (4 marks)
(ii) Compute the value of the multiplier. (3 marks)
(iii) State any two factors that can reduce the size of the multiplier. (2 marks)