

INDEX NUMBER
COURSE CODE	ECNS 121
COURSE TITLE	PRINCIPLES OF MACROECONOMICS
DURATION	THREE (3) HOURS
EXAMINER	DR. JOSEPH BAAFI
INSTRUCTIONS	<ul style="list-style-type: none">❖ Attempt ALL QUESTIONS by circling the correct answer on the question paper.❖ ALSO use HB pencil to SHADE THE CORRECT ANSWER ON THE SCANNABLE ANSWER SHEET. <p>***SUBMIT THE QUESTION PAPER TOGETHER WITH THE SCANNABLE SHEET***</p>

Use the information below to answer questions 1-5

JASBOA automotive is considering offer from Offinso Island to build a plant making automotive parts for use in that country (Offinso Island). In preparation for a final decision, JASBOA's economists: James Boamah and Margaret Nyarko have been hard at work constructing a basic macroeconomic model for Offinso Island to aid the company (JASBOA automotive) in predicting future levels of economic activity. Because of the cyclical nature of the automotive parts industry, forecasts of future economic activity are quite important in JASBOA's decision process. Corporate profits (P_{t-1}) for all firms in Offinso Island were about ₦100 billion. Gross Domestic Product (GDP) for the nation is composed of consumption C, Investment I, and government spending G. It is anticipated that Offinso Island's federal state and local governments will spend in the range of ₦2000 billion next year. On the basis of an analysis of recent economic activity in Offinso Island, consumption expenditure are assumed to be ₦1000 billion plus 70% of national income (Y). National income is equal to GDP minus taxes; T. Taxes are estimated to be in the range of about ₦2 billion plus 30% of GDP. Finally, corporate investments have historically equaled ₦300 billion plus 90% of last year's corporate profits (P_{t-1})

1. The GDP equals
 - A. $C+I+G$
 - B. $C+I+G+X-M$
 - C. $C+I$
 - D. $C+G+X-M$
2. Consumption expenditure equals
 - A. $1000+0.7Y$
 - B. $100+0.47Y$
 - C. $1000+70Y$
 - D. $100+70Y$
3. Taxes equal
 - A. $2+0.3GDP$
 - B. $2+30GDP$
 - C. $30+0.2GDP$
 - D. $30+0.02GDP$
4. Investment value in Offinso Island is
 - A. ₦300 billion
 - B. ₦210 billion
 - C. ₦390 billion
 - D. ₦400 billion

5. At equilibrium GDP is
- A. ₦4289.37billion
 - B. ₦4389.37billion
 - C. ₦4489.37billion
 - D. ₦4589.37 billion

Use the information below to answer questions 6-16

Two firms, C and D, both produce coat hangers. The price of coat hangers is \$1.20 each. Firm C has total fixed costs of \$750,000 and variable costs of 30 cents per coat hanger. Firm D has total fixed costs of \$400,000 and variable costs of 50 cents per coat hanger. The corporate tax rate is 40%. If the economy is strong, each firm will sell 2,000,000 coat hangers. If the economy enters a recession, each firm will sell 1,400,000 coat hangers.

6. If the economy enters a recession, the total revenue of Firm C will be _____.
 - A. \$1,680,000
 - B. \$1,400,000
 - C. \$2,000,000
 - D. \$0
 - E. None of these is correct.
7. If the economy enters a recession, the total cost of Firm C will be _____.
 - A. \$1,680,000
 - B. \$1,170,000
 - C. \$750,000
 - D. \$420,000
 - E. None of these is correct.
8. If the economy enters a recession, the before tax profit of Firm C will be _____.
 - A. \$1,680,000
 - B. \$1,170,000
 - C. \$510,000
 - D. \$204,000
 - E. None of these is correct.
9. If the economy enters a recession, the tax of Firm C will be _____.
 - A. \$1,680,000
 - B. \$750,000
 - C. \$510,000
 - D. \$204,000
 - E. None of these is correct.
10. If the economy enters a recession, the after-tax profit of Firm C will be _____.
 - A. \$1,680,000
 - B. \$750,000
 - C. \$510,000
 - D. \$204,000
 - E. \$306,000

11. If the economy is strong, the total revenue of Firm C will be _____.
A. \$1,680,000
B. \$1,400,000
C. \$2,000,000
D. \$2,400,000
E. None of these is correct.
12. If the economy is strong, the total cost of Firm C will be _____.
A. \$1,680,000
B. \$1,170,000
C. \$1,350,000
D. \$420,000
E. None of these is correct.
13. If the economy is strong, the before tax profit of Firm C will be _____.
A. \$1,680,000
B. \$1,050,000
C. \$510,000
D. \$204,000
E. None of these is correct.
14. If the economy is strong, the tax of Firm C will be _____.
A. \$420,000
B. \$750,000
C. \$510,000
D. \$204,000
E. None of these is correct.
15. If the economy is strong, the after-tax profit of Firm C will be _____.
A. \$0
B. \$6,000
C. \$36,000
D. \$60,000
E. \$630,000
16. If a firm's sales decrease by 15% and profits decrease by 20% during a recession, the firm's operating leverage is _____?
A. 1.33
B. 0.75
C. 5
D. -5
E. None of these is correct.

17. Which of the following is NOT a reason that international trade theory is useful for managers to understand?
- A. Countries use trade theories to help them decide how to improve their competitive positions, such as improving the quantity and quality of production factors.
 - B. Countries' trade policies affect whether imports are allowed to compete against domestic production, thus affecting where companies need to produce to serve given markets.
 - C. Countries use laissez-faire policies to intervene in the free movement of international trade, thus affecting where companies can produce most efficiently.
 - D. Countries wrestle with the questions and set policies on what, with whom, and how much they should import and export, thus affecting companies' abilities to produce given products efficiently and sell them into given markets.
18. The trade theory that says a country should export more than it imports is known as
- A) mercantilism
 - B) absolute advantage
 - C) comparative advantage
 - D) import substitution
19. Under mercantilism, governments sought to influence trade by _____.
- A) establishing bilateral trading agreements with other countries
 - B) limiting exports
 - C) limiting imports and subsidizing exports
 - D) encouraging the development of manufacturing in their colonies
20. Which of the following undesirable results will most likely occur for a country running a favorable balance of trade?
- A) higher unemployment
 - B) higher domestic interest rates
 - C) fewer funds to invest abroad
 - D) granting credit that may be risky
21. According to Adam Smith's theory of absolute advantage, specialization allows countries to increase their efficiency for each of the following reasons EXCEPT
- A. labor could become more skilled by repeating the same tasks
 - B. transportation costs could be lowered by producing closer to markets
 - C. labor would not lose time in switching from the production of one kind of product to another
 - D. higher production would provide incentives for the development of more effective working methods
22. Comparative advantage differs from absolute advantage in that the former _____, whereas the latter _____.
- A. holds that countries should specialize their production; does not
 - B. holds that trade should be kept as nearly in balance as possible; says countries should seek a favorable balance of trade

- C. bases trade on natural advantages; bases trade on acquired advantage
 - D. states that there is a basis of trade even if one country can produce everything more efficiently than another country; does not deal with this issue
23. The comparative advantage theory holds that a country will gain from trade
- A) when it exports products for which it has an acquired advantage and imports products for which another country has a natural advantage
 - B) if it exports goods it can produce more efficiently than other countries and imports goods other countries can produce more efficiently than it can
 - C) even though it can produce all goods more efficiently than other countries
 - D) if it exports products using its abundant production factors in exchange for products for which it has scarce production factors
24. According to the theory of comparative advantage, a country gains from foreign trade even though it may have an absolute advantage in the production of all products because
- a. the country will forego producing its less efficient output in order to produce its more efficient output
 - b. workers become more efficient through specialization
 - c. economies of scale will reduce cost
 - d. there will be more incentive to develop cost-saving technologies
25. Which of the following assumptions was made in the original theories of absolute and comparative advantage?
- A. Specialized labor seeks efficiency.
 - B. Labor resources are fully employed.
 - C. Countries pursue objectives other than economic efficiency.
 - D. Production networks enable countries to concentrate on particular functions.
26. The free trade theories of specialization primarily assume that _____.
- A. specialization leads to unemployment, but production gains compensate for job losses
 - B. resources can move internationally from the production of one good to another
 - C. resources can move domestically from the production of one good to another
 - D. countries have objectives other than economic efficiency

Use the information below to answer questions 27-28

A certain country consists of a population of 260 million out of which 50 million are retired, 188 million are employed and 12m are unemployment

27. What is the total Labour Force?
- A. 200
 - B. 2000
 - C. 20000
 - D. 200000

28. What is the rate of unemployment?
- A. 6%
 - B. 12%
 - C. 24%
 - D. 48%
29. High employment is important forbecause unemployment implies a waste of resources.
- A. positive economics
 - B. Normative Economics
 - C. All of above
 - D. None Of above
30. Most part-time workers are not counted as
- A. unemployed
 - B. Employed
 - C. All of above
 - D. None Of above
31. Unemployment statistics only include those who are
- A. seeking employment
 - B. Fighting government
 - C. All of above
 - D. None Of above
32. The labor force is the sum of individuals who are employed and
- A. unemployed
 - B. Employed
 - C. All of above
 - D. None of above
33. Aworker is a person who would work if a suitable job were available but has given up looking for a job.
- A. discouraged
 - B. Satisfied
 - C. All of above
 - D. None of above
34. Most frictional unemployment is
- A. short-term
 - B. long term
 - C. All of above
 - D. None of above
35. Cyclical unemployment arises during an economic
- A. Boom
 - B. slow down.

- C. All of above
- D. None Of above

36. Inflation is measured by computing the annual rate of change in the
- A. Consumer Price Index (CPI).
 - B. Employment
 - C. All of above
 - D. None of above
37. According to classicals money
- A. is neutral
 - B. Has no real effect
 - C. All of above
 - D. None of above
38. According to classicals money is for only purpose
- A. Transactionary
 - B. Precautionary
 - C. Speculative
 - D. All of above
39. According to Keynesians money is for purpose
- A. Transactionary
 - B. Precautionary
 - C. Speculative
 - D. All of above
40. According to Keynesians holding money to meet unforeseen circumstances isdemand for money
- A. Transactionary
 - B. Precautionary
 - C. Speculative
 - D. All of above
41. According to Keynesians holding money to purchase interest bearing assets isdemand for money
- A. Transactionary
 - B. Precautionary
 - C. Speculative
 - D. All of above

Use the information below to answer questions 42-43

Initial Deposit is GHS 1000

Cash Ratio 20%

42. What is the Banks multiplier ?
- | | |
|-------|-------|
| A. 5 | C. 15 |
| B. 10 | D. 20 |
43. What is total money supply ?
- | | |
|-------------|-------------|
| A. GHS 1000 | C. GHS 1020 |
| B. GHS 5000 | D. GHS 500 |
44. Money created is
- | | |
|------------|-------------|
| A. GHS 200 | C. GHS 4000 |
| B. GHS 800 | D. GHS 5000 |

- 45) If the central bank decreases the money supply, it is conducting
- A. monetary policy
 - B. supply-side policy
 - C. fiscal policy
 - D. incomes policy
- 46) If government increases spending, it is using
- A. monetary policy
 - B. supply-side policy
 - C. fiscal policy
 - D. incomes policy
- 47) Government policies regarding taxes and expenditures are called
- A. monetary policy
 - B. supply-side policy
 - C. fiscal policy
 - D. incomes policy
- 48) If government decreases taxes on business, it is using
- A. monetary policy
 - B. supply-side policy
 - C. fiscal policy
 - D. incomes policy
- 49) The government wants to encourage consumer spending through cutting income taxes.
This is an example of
- A. monetary policy
 - B. supply-side policy
 - C. fiscal policy
 - D. incomes policy
- 50) To get the economy out of a slump, Keynes believed that the government should
- A. cut both taxes and government spending
 - B. increase both taxes and government spending
 - C. increase taxes and/or decrease government spending
 - D. decrease taxes and/or increase government spending
- 51) To bring the economy out of an inflationary period, Keynes argued that the government should
- A. cut both taxes and government spending
 - B. increase both taxes and government spending
 - C. increase taxes and/or decrease government spending
 - D. decrease taxes and/or increase government spending
- 52) The Central Bank affecting the supply of money is known as
- A. monetary policy
 - B. supply-side policy
 - C. fiscal policy
 - D. incomes policy
- 53) Policies designed to affect the quantity of money are
- A. fiscal policies
 - B. supply side or growth policies
 - C. government spending policies
 - D. monetary policies

- 54) Government policies that focus on increasing production rather than stimulating aggregate demand are known as
- A. monetary policy
 - B. supply-side policy
 - C. fiscal policy
 - D. incomes policy
- 55) If government regulations imposed on businesses that reduce productivity are eliminated, the government is attempting to use
- A. monetary policy
 - B. supply-side policy
 - C. fiscal policy
 - D. incomes policy
- 56) A surplus in the government budget exists when
- A. the total amount of money owed by the government is zero
 - B. the difference between the level of tax revenues and federal expenditures in a year is positive
 - C. the ratio of federal tax revenues to expenditures in a year equals to one
 - D. the total amount of money owed by all levels of government exceeds total tax revenues
57. A period during which aggregate output rises is known as a(n)
- A) recession.
 - B) inflation.
 - C) hyperinflation.
 - D) expansion
58. A period when the economy shrinks is known as
- A) a recession.
 - B) a contraction.
 - C) a slump.
 - D) all of the above
59. In a business cycle, a peak represents the end of ___ and a trough represents the end of ___
- A) an expansion; a recession
 - B) a depression; an expansion
 - C) a trough; a peak
 - D) a recession; an expansion
60. In a business cycle, a peak represents the end of
- A) an expansion
 - B) a depression
 - C) Trough
 - D) a recession

Use the information below to answer questions 61-63

Initial Deposit is GHS 1000

Cash Ratio 20%

61. What is the Banks multiplier?

- A. 5
- B. 10
- C. 15
- D. 20

62. What is total money supply ?

- A. GHS 1000
- B. GHS 5000
- C. GHS 1020
- D. GHS 500

63. Money created is

- A. GHS 200
- B. GHS 800
- C. GHS 4000
- D. GHS 5000

64) The diagram that shows the income received and payments made by each sector of the economy is the

- A) aggregate demand-aggregate supply diagram.
- B) circular flow diagram.
- C) income flow diagram.
- D) income-production diagram.

65) In the circular flow diagram, the different payments made by firms to households are

- A) wages and profits.
- B) interest and dividend payments.
- C) profits and rent.
- D) All of the above

66) An example of a transfer payment is

- A) an interest payment on a General Motors' bond.
- B) the added value of stock from the time it was bought to the time it was sold.
- C) a Social Security retirement benefit.
- D) the salary paid to a member of the armed forces.

67) In a closed economy with no government, which of the following will occur when the economy is in equilibrium?

- a) $S = I$
- b) $C = Y$
- c) $S = C$
- d) $AE = C + I + S$

68) An equal increase in government spending and taxes will cause:

- a) an increase in output
- b) no change in output
- c) an uncertain effect on output
- d) a decrease in output

69) . Which of the following statements about money is incorrect?

- a) money is a medium of exchange
- b) money is the most liquid "store of value"
- c) money is both income and wealth
- d) money is a unit of account

- 70) The sale of
- A. a used textbook does enter GNP.
 - B. a used textbook does not enter GNP, but the sale of a used house does.
 - C. both a used textbook and a used house do not enter GNP.
 - D. a used house does not enter GNP, but the sale of a used book does.
 - E. None of the above.
- 71) Which one of the following statements is the most accurate?
- A. The sale of a used textbook does generate income for factors of production.
 - B. The sale of a used textbook does not generate income for any factor of production.
 - C. The sale of a used textbook sometimes does and sometimes does not generate income for factors of production.
 - D. It is hard to tell whether a sale of a used textbook does or does not generate income for factors of production.
 - E. None of the above.
- 72) Which one of the following statements is the most accurate?
- A. GNP plus depreciation is called net national product (NNP).
 - B. GNP less depreciation is called net national product (NNP).
 - C. GNP less depreciation is called net factor product (NFP).
 - D. Answers A and C are both correct.
 - E. None of the above.
- 73) National income equals GNP
- A. less depreciation, less net unilateral transfers, less indirect business taxes.
 - B. less depreciation, plus net unilateral transfers, plus indirect business taxes.
 - C. less depreciation, less net unilateral transfers, plus indirect business taxes.
 - D. plus depreciation, plus net unilateral transfers, less indirect business taxes.
 - E. less depreciation, plus net unilateral transfers, less indirect business taxes.
- 74) Disposable income is National income
- A. less taxes collected from households and firms by the government.
 - B. plus net taxes collected from households and firms by the government.
 - C. less net taxes collected from households and firms by the government
 - D. less net taxes collected from households by the government.
 - E. less net taxes collected from households and firms by the government.
- 75) Government savings, S_g , is equal to
- A. $T - G$.
 - B. $T + G$.
 - C. $T = G$.
 - D. $T + G - I$.
- 76) In a closed economy, private saving, S_p , is equal to
- A. $I - (G - T)$.
 - B. $I + (G - T)$.
 - C. $I + (G + T)$.
 - D. $I - (G + T)$.
- 77) The term marginal propensity to consume can best be explained as the
- A. desire to spend more income on consumption
 - B. change in consumption as a percentage of change in income
 - C. average income regularly spend on consumption
 - D. total expenditure on consumption.

78) Which of the following items is not included in measuring national income by the income approach?

- A. Wages and salaries of public servants
- B. Students grants and scholarships
- C. Profits of companies
- D. Rents on property

79) The difference between the Gross Domestic Product and the Gross National Product is the

- A. allowance for total depreciation
- B. total interest payment
- C. net income from abroad
- D. net internally generated income

80) Net National Product (NNP) is equal to the

- A. Gross Domestic Products less depreciation
- B. Gross National Product less depreciation
- C. Gross Domestic Product plus depreciation
- D. Gross National Income plus Taxation

81) An increase in marginal propensity to save will lead to

- A. an increase in marginal propensity to consume
- B. a decrease in marginal propensity to consume
- C. an increase in the level of consumption
- D. a decrease in the level of saving

82) Gross National Product less depreciation is known as

- A. Gross Domestic Product
- B. Gross National Income
- C. Fixed National Product
- D. Net National Product

83) Gross Domestic Product at market price plus net factor income from abroad gives

- A. gross capital formation
- B. net capital formation
- C. disposable income
- D. gross national product market price

84) In calculating the national income of a country X, the cost of both raw materials and the finished products were included. This is a case of

- A. double counting
- B. price fluctuations
- C. price differentiation
- D. double pricing

85) Which of the following are examples of transfer payments?

- A. Gifts and donations
- B. Rents and rates
- C. Profits and dividends
- D. Internal and external debts

Use the table below to answer questions 86 and 87

Items	\$Million
Final consumption expenditure	500
Gross private investment	150
Government purchases	300
Depreciation	25
Net factor income	-10

86) The Gross Domestic Product is equal to

- | | |
|-----------|-----------|
| A. \$825m | C. \$940m |
| B. \$925m | D. \$950m |

87) The net capital formation is

- | | |
|-----------|-----------|
| A. \$115m | C. \$915m |
| B. \$125m | D. \$925m |

88) If the simple multiplier is 5, by how much will national income change if investment increases by GH¢2million ? National income will

- | | |
|-----------------------------|-------------------------|
| A. increase by GH¢5million | C. fall by GH¢5million |
| B. decrease by GH¢10million | D. rise by GH¢10million |

89) Which of the following is normally subtracted by estimating the gross national product using the expenditure approach?

- | | |
|---------------|-----------------|
| A. Import | C. Export |
| B. Investment | D. consumption. |

Use the national income determination multiplier given as $K = \frac{1}{1-x}$ to answer questions 90 and 91

90) What does x represent in the national income determination multiplier? Marginal Propensity to

- | | |
|------------|-----------|
| A. consume | C. invest |
| B. export | D. save |

91) Which of the following describes the value of x ?

- | | |
|------------|----------------|
| A. $X > 1$ | C. $0 < X > 1$ |
| B. $0 < X$ | D. $0 > X < 1$ |

92) When the $MPC = 0$, it means that

- | | |
|-------------------------------------------|---------------------------------------------|
| A. part of any additional income is spent | C. any additional income earned is saved |
| B. any additional income is spent | D. no part of an additional income is saved |

93) The proportion of any additional income that is not spent is known as

- | | |
|----------------------------------|-----------------------------------|
| A. average propensity to consume | C. average propensity to save |
| B. marginal propensity to save | D. marginal propensity to consume |

94) Total withdrawals from the circular flow of income in an economy is made up of

- A. taxation + imports + savings
B. investment + savings + exports
C. exports + government expenditure + investment
D. savings + imports + investment

95) In a closed economy without government influence, the only withdrawal is

- | | |
|---------------|----------------|
| A. investment | C. tax |
| B. savings | D. consumption |

96) Given the equation $C = 30 + 0.8y$, what is the value of consumption expenditure When $y =$ GH¢200 million?

- | | |
|------------|------------|
| A. GH¢230m | D. GH¢160m |
| B. GH¢190m | |
| C. GH¢170m | |

97) In the consumption function $c = m + n y$, which of the following is the dependent variable?

- A) c
- B) m
- C) n
- D) y

98. If government increases spending, it is using

- E. monetary policy
- F. supply-side policy
- G. fiscal policy
- H. incomes policy

99. Government policies regarding taxes and expenditures are called

- E. monetary policy
- F. supply-side policy
- G. fiscal policy
- H. incomes policy

100. If government decreases taxes on business, it is using

- E. monetary policy
- F. supply-side policy
- G. fiscal policy
- H. incomes policy