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UNIVERSITY OF SKILLS TRAINING AND ENTREPRENEURIAL DEVELOPMENT
DEPARTMENT OF MANAGEMENT STUDIES EDUCATION
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COURSE TITLE	INTRODUCTION TO MACROECONOMICS
COURSE CODE	ECO 121 Regular: MGT 1A - 1F
DURATION	TWO HOURS 30 MINUTES
NAME OF LECTURER	MR. WILLIAMS KWASI BOACHIE
INSTRUCTIONS	ANSWER ALL THE QUESTIONS IN SECTION A ON THE QUESTION PAPER AND <u>FOUR</u> QUESTIONS FROM SECTION B IN YOUR ANSWER BOOKLET. NOTE THAT QUESTION ONE IN SECTION B IS A COMPULSORY QUESTION

SECTION A : ANSWER ALL THE QUESTIONS IN THIS SECTION ON THE QUESTION PAPER

1. The father of Macroeconomics is said to be
 - a. Adam Smith
 - b. Alfred Marshall
 - c. John Maynard Keynes
 - d. Milton Friedman
 - e. John Neville Keynes
2. Which of the following will cause a change in investment?
 - a. A change in the rate of interest
 - b. fear of future inflation that encourages panic buying
 - c. Redistribution of income in favour of households
 - d. change in savings
 - e. Redistribution of income in favour of the few riches in society.
3. The following are all macroeconomic objectives of an economy with the exception of
 - a. Unemployment rate
 - b. Exchange rate
 - c. General price of beverages
 - d. Inflation rate
 - e. Total output
4. When the level of national income is below the equilibrium income, there will be
 - a. Overproduction of goods and services
 - b. No change in total expenditure
 - c. inflation
 - d. excess demand for goods and services
 - e. None of the above
5. The GDP at current price is computed by
 - a. Subtracting depreciation allowance from national income
 - b. Adding indirect taxes to national product
 - c. adding depreciation allowance to and subtracting net factor income abroad from national income
 - d. Subtracting indirect taxes from GDP at constant price
 - e. Adding indirect taxes to depreciation

6. Total investment expenditure is made of
- Fixed capital formation and income from abroad
 - Fixed capital formation and additions to inventory stock
 - additions to inventory stock and depreciation allowance
 - depreciation allowance and interest payments on capital
 - net investment and indirect taxes
7. Which of the following will describe an instance where the GNP will be greater than GDP?
- Output of foreigners in the domestic country greater than the output of nationals living abroad
 - Indirect taxes greater than subsidies
 - Subsidies greater than indirect taxes
 - Output of foreigners in the domestic country less than the output of nationals living abroad
 - dependence on foreign inflows
8. In the circular flow model, firms
- Demand both products and resources
 - Supply both products and resources
 - Demand products and supply resources
 - Supply products and demand resources
 - Demand labour and capital and supply intermediate goods
9. The basic component in the measurement of economic welfare isenjoyed by the people.
- Quantity of goods
 - Leisure
 - Quality of goods
 - Comfort
 - Goods and services
10. If Comfort saves ₦6,000 out of an income of ₦30,000.00, then her Average Propensity to save (APS) is
- 0.3
 - 0.2
 - 0.4
 - 0.5
 - 0.6
11. If Gloria consumes ₦10,000 out of an income of ₦15,000; then her average propensity to save (APS) is
- 0.22
 - 0.33
 - 0.44
 - 0.55
 - 0.66
12. A man saves ₦400 of an income of ₦1,200. What is his average propensity to consume (APC) is
- 0.77
 - 0.88
 - 0.99
 - 0.33
 - 0.67

13. If a man saves GH₵12,000 out of GH₵60,000. What is his Average Propensity to Consume?

- a. 0.2
 - b. 0.1
 - c. 1.2
 - d. 0.8

14. If the consumption function is given as $C = 400 + 0.7Y$, specify the savings function.

- a. $S = 400 + 0.3Y$
 - b. $S = -400 + 0.3Y$
 - c. $S = -400 + 0.7Y$
 - d. $S = 400 - 0.3Y$

Use the table below to answer questions 15 and 16.

Disposable Income (GH₵)	Consumption (GH₵)
3,000	1,200
4,000	2,100
5,000	3,000

15. Given the data in the table above, the marginal propensity to consume is

- a. 0.1
 - b. 0.3
 - c. 0.6
 - d. 0.9

16. What is the value of the average propensity to save (APS) when income is Gh 5000?

- a. 0.1
 - b. 0.4
 - c. 0.6
 - d. 0.9

Indicate Whether the Following Statements are TRUE OR FALSE

17. The occurrence of the Great Depression Accounted for the failure of the Keynesian school of economic thought. TRUE FALSE

18. Aggregate demand is synonymous to market demand TRUE FALSE

19. Once a nation's GNP is higher, it becomes conclusive that its nationals are well off.

TRUE **FALSE**

20. Nominal GDP is real GDP at market prices. TRUE FALSE

21. The difference between national income at current price and national income at constant price is.....
- Unemployment
 - Exports and imports
 - Balance of payment
 - Inflation
 - Balance of trade
22. The curve that shows the productive capability of an economy given all her economic resources and the existing technology is known as the
- Production possibilities curve
 - The demand curve
 - Price consumption curve
 - Industry technology curve
 - Income consumption curve
23. When workers have the required skills but lack information about the existence of jobs, then we are referring to which type of unemployment?
- Structural unemployment
 - Information unemployment
 - Frictional unemployment
 - Classical unemployment
 - Technological unemployment
24. The Keynesian unemployment is another name for which type of unemployment?
- Structural unemployment
 - Information unemployment
 - Frictional unemployment
 - Cyclical unemployment
 - Technological unemployment
25. The use of the least-cost production technique for a given output is a characteristic of
- Consumption efficiency
 - Technical efficiency
 - Production possibilities
 - Allocative efficiency
 - Dynamic efficiency
26. The financial statement that shows the economic transaction of exports and imports between countries is known as
- The balance of trade
 - The Balance of current account
 - Deficit balance
 - The balance of payments
 - The balance of unrequited transfers
27. The tax imposed on the goods and services in a country is known as the
- Direct tax
 - Export tax
 - Domestic duties
 - Government tax
 - Indirect tax
28. The three approaches of measuring national income include the income approach, expenditure approach and the

29. All the following are problems of measuring national income except
- double counting
 - transfer payments
 - lack of accurate information
 - subsistence sector
 - balance of payment problem
30. When the total value of imports exceed the total value of exports of a particular country, then we have a balance of payment
- Surplus
 - difficulty
 - deficit
 - equilibrium
 - production.
31. Which of the following is **not** an advantage of using the product approach to measure the national income of a country?
- It breaks down the economy into sectors and sub-sectors
 - It indicates structural changes that are occurring in the economy
 - It indicates the level of private domestic investment
 - It avoids unnecessary reliance on population projection
32. All the following are problems associated with the output approach in measuring the national income of a country except
- Double counting
 - Subsistence output
 - Accommodation
 - Personal savings
33. An increase in a country's productive capacity, identifiable by a sustained rise in real national income over a period of time is called
- Economic development
 - Economic growth
 - Economic welfare
 - Economic trend
34. Which of the following is **not** a disadvantage of using the income approach to measure the national income?
- Difficulties in ascertaining all factor incomes
 - Problem of transfer payment
 - Owner occupied houses
 - Inaccurate tax planning
35. The growth in individual standards of living, or the size of each person's slice of national output, as measured by the Gross National Product per capita is termed as
- Economic Development
 - Economic Welfare
 - Economic Growth
 - Economic Integration

36. If a production process maximizes the output produced from any available inputs or factors of production, then that production process is said to achieve

- a. Production Efficiency
- b. Allocative Efficiency
- c. Technical Efficiency
- d. Consumption Efficiency

37. Which of the following factors determine economic growth?

- i. Savings and investment
 - ii. Availability of Natural Resources
 - iii. Political stability
 - iv. Re-allocation of resources
-
- a. I and II only
 - b. I, II, III, IV and V
 - c. I and IV only
 - d. I, II and III only

38. A sustained increase in the real per capita income accompanied by fundamental changes of the structure of the economy is referred to as

- a. Economic Growth
- b. Economic Development
- c. Economic Welfare
- d. Economic Integration

39. The relationship between consumption spending and disposable income is described by

- a. The liquidity trap
- b. Household wealth
- c. The consumption function
- d. The paradox of thrift

40. The marginal propensity to save is defined as

- a. Savings divided by disposable income
- b. The change in savings divided by the change in disposable income
- c. Disposable income divided by savings
- d. The change in disposable income divided by the change in savings

41. If firms find that consumers are purchasing more than expected, which of the following would you expect?

- a. Aggregate expenditure will likely be greater than GDP
- b. The Economy will adjust to macroeconomic equilibrium as inventories rise, and production and unemployment fall
- c. The economy will adjust to macroeconomic equilibrium as inventories fall, and production and unemployment fall
- d. Aggregate expenditure will likely be less than GDP

42. Household spending on goods and services is known as

- a. Government purchases
- b. Net export
- c. Consumption spending
- d. Planned investment spending

43. In macroeconomics, the "output gap" is the difference between
- Real and nominal national income
 - Output and employment
 - Potential real national income and actual real national income
 - Real GNP and real GDP
44. In a simple macroeconomic model, "autonomous expenditures" are
- Induced expenditures
 - Non-domestic expenditure
 - Not dependent on national income
 - Those which are constant
45. The inflation rate is the annual percentage change in
- Real GDP
 - The quantity of Money
 - The price level
 - Labour productivity
46. Other things being equal, a reduction in money supply will lead to a
- Rise in the rate of interest and no change in investment expenditure
 - Rise in the rate of interest and a decrease in investment expenditure
 - A fall in the rate of interest and an increase in investment expenditure
 - A fall in the rate of interest and a decrease in investment expenditure
47. The total planned or desired spending in the economy during a given period by the various sectors of an economy on newly produced final goods and services is termed as
- Consumption expenditure
 - Aggregate demand
 - Savings
 - Investment expenditure
48. Which of the following is/are determinant(s) of consumption?
- The level of disposable income
 - The distribution of income
 - The rate of interest
 - Expenditure for social capital
- I and III only
 - I only
 - I, II and IV only
 - I, II and III only
49. In determining equilibrium national income using Injection-Leakages Approach, which of the following does **not** form part of the leakages?
- Savings
 - Taxation
 - Exports
 - Imports
50. The structure of economic life or the economic activity in a community, a region, a country or the world is referred to as
- Communism
 - Economic system
 - Economy
 - Frontier

51. The total market value of final goods and services produced by domestically owned factors of production within a given period is termed
- Gross National Product
 - Gross Domestic Product
 - Net Domestic Product
 - Net National Product
52. Which of the following is not a major macro-economic objective to be achieved by every economy?
- Efficient allocation of resources
 - Attainment of full unemployment
 - Attainment of price level stability
 - Ensure a satisfactory balance of payment situation
 - Attainment of high level of unemployment
53. A higher national income at market price may not imply increase in economic activities as large percentage of this figure may be in the form of
- Indirect taxes
 - Depreciation
 - Subsidies
 - All of the above
54. A measure of changes in physical output in the economy between different time periods by valuing all goods and services produced in two periods at the same price is known as
- Nominal GDP
 - Current Output
 - National Income
 - Real GDP
55. What is potential GDP?
- It is the level of GDP at which inflation is constant
 - It is the difference between current GDP and maximum GDP
 - It is the level of real GDP in the long run
 - It is the level of real GDP in the short run
56. Given the savings function of the form $S = -Q + BY$, the variable Q in the function refers to as
- Accumulated savings
 - Depleted savings
 - Savings from export
 - Savings from imports
57. The Say's Law states that
- demand creates its own supply
 - aggregate demand should exceed aggregate supply
 - exports must be equated to imports
 - supply creates its own demand
58. According to the Classical Economists the national income of an economy depends on the level of
- savings
 - investment
 - employment
 - consumption
 - exports.

59. Given a consumption function of the form $C = 60 + 0.8Y$, if $Y = \$2000$, find the value of savings.
- 320
 - 330
 - 340
 - 350
 - 360
60. If the propensity to save in a country is given by the expression: $S = 0.2Y - 50$ and the level of investment is given by $I = 0.1Y$, find the equilibrium level of national income.
- \$200
 - \$300
 - \$400
 - \$600
 - \$500

**SECTION B: ANSWER QUESTION ONE AND ANY THREE QUESTIONS IN YOUR
ANSWER BOOKLET**

- Q1. You are given the following market model:

$$\begin{aligned} Y &= C + I + G + X - M \\ C &= a + bYd \\ Yd &= Y - T \\ T &= T_0 + tY \\ I &= I_0 ; \quad G = G_0 ; \quad X = X_0 \\ M &= M_0 + mY \end{aligned}$$

- a. Based on the information above, determine the equilibrium level of national income.
 b. Why is it so important to consider issues like depreciation, taxes and subsidies when measuring the gross domestic product (GDP)?
- Q2. A. The following data show the national income figures, price indices and population for an economy in 2012 and 2014.

	2012	2014
National income	\$260,000,000	\$480,000,000
Price index	120	150
Population	15 million	16 million

- i. Calculate the real national income in both years
 ii. Provide an economic interpretation of your answer.
 iii. Determine the average rate of economic growth between the year 2012 and 2014.

B. For a closed economy without government intervention, the consumption function is $C = 0.3Y + 30$ and planned Investment is $I = 100$

Based on this information, calculate the values of the following:

- i. Equilibrium level of National income
- ii. Consumption
- iii. Savings

Q3. A closed economy without a government sector exhibits the following relationship between consumption and income (in billion cedis). Use the data to answer the questions that follow.

INCOME (Y)	CONSUMPTION (C)
0	150
100	220
200	-
300	-
400	-
500	-
600	-
700	-
800	-

- a. What is the value of autonomous consumption expenditure in this economy?
 - b. Determine the value of the marginal propensity to consume in this economy.
 - c. Derive the consumption function
 - d. Copy and complete the table above
 - e. If investment (I) is assumed to be at a constant level of ₦50 Billion at all levels of income, calculate the equilibrium level of national income.
 - a. State and explain any **three** uses of national income statistics
- Q4. a. Explain any **two** causes of inflation and suggest any **two** solutions of inflation
- b. Discuss any **two** economic and **two** non-economic costs of unemployment to your country.
- c. Explain any **three** methods of measuring welfare in your country.
- Q5. A hypothetical economy is described by the following set of equations:

$$\begin{aligned}Y &= C + I \\C &= 100m + 0.75Y \\I &= \$80m\end{aligned}$$

- a. Calculate the equilibrium level of national income
- b. Calculate the equilibrium consumption expenditure
- c. Derive the complementary savings function.
- d. Calculate the equilibrium value of the savings
- e. Mention any **two** weaknesses of the Gross national product as a measure of welfare.
- f. Explain any **three** costs of economic growth to your country.