

- 3) Under what circumstances would devaluation of a country's currency lead to an increase in domestic employment?
- 4) Why must the balance of payment always balance?
- 5) The following demand schedule faces a monopolist. He has no marginal cost.

P	80	70	60	50	40	30	20	10	0
Q	0	1	2	3	4	5	6	7	8

- a) Sketch the demand and revenue curves for this monopolist
- b) Beyond what output will it not be profitable for him to expand?
Explain why?
- c) Determine the price elasticity of demand at this level of output
- 6) Distinguish carefully and show graphically, the difference between income consumption line and price consumption line

THE UNIVERSITY OF BAMENDA
COMMON ENTRANCE EXAMINATION INTO ENSET BAMBILI JULY
ECONOMICS 2000 (MAJOR FOR ECONOMICS) 3HOURS,

COEF: 4

General instructions: Answer all questions. Some answers require only a single word or letter. Where applicable, give only the word or letter. You should be as precise as possible to avoid confusion.

1. What is economic rent? (definition in one sentence)
2. Who was the first economics to give an explanation to economic rent?
3. What do you understand by the natural growth rate of population?
4. Who is a monopolist?

Questions 5, 6, and 7 refer to the following data which shows a capital structure of a company.

200 10% debentures of 500FRS each

100 5% preference shares at 1000FRS each.

5. What is the capital gearing of this company?
6. If in a given year the company makes a profit of 4.150.000frs. What share of this profit will go to debenture shareholders?
7. Determine the profit that ordinary share holders will earn.
8. How do you convert GDP at factor cost to GDP at market prices?

Questions 9, 10 and 11 are based on the following data (figures are in millions FCFA)

Taxes=150, investment=200, imports= $\frac{1}{10}y$, government spending=200, savings=150 and exports=100.

9. Calculate the equilibrium level of income.
10. What is the value of imports
11. State whether the economy is running a surplus or a deficit in its external account and by how much?
12. What output must the firm produce in order to maximize profits?
13. What section of the marginal cost curve represents the firm's supply curve?
14. What is the shut-down price to this firm?
15. What is the present value of 907.500FRS receivable 2years now at an interest rate of 10%?
16. Distinguish between a custom union and a free trade area.
17. What does the abbreviation CIF stands for?
18. Define price elasticity of demand.
19. How do we determine using elasticity whether a good is a luxury?

Questions 20, 21, 22, and 23 refer to the following information on the demand and supply of x. p refers to price while Qd and Qs are quantities

$$Q_d = 80 - 10p, Q_s = 20p - 40$$

20. What is the market price of this commodity?
21. How many units of x will be sold and bought at this market price?
22. If the government were to fix the price of good x at 3FRS per unit, will there be an excess demand or supply in the market and by how much?
23. What will be one effect of the results obtain in question 22?
24. Under what conditions is a market equilibrium said to be unstable?

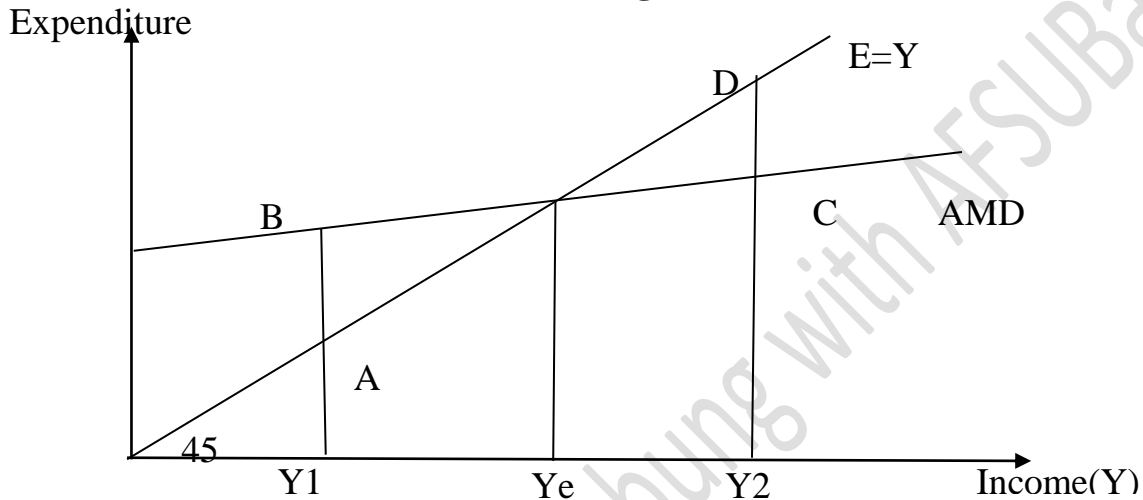
Questions 25 and 26 are based on the following information: Mr. Ndi resigns from his job as a teacher on a salary of 80.000FRS per month operate a

provision store in his house whose rents are 19.000FRS per month. His monthly purchases are valued at 280.000 FRS while his monthly sales are 365.000FRS

25. What is the value of Mr. Ndeh's monthly implicit cost?

26. What are the monthly profits?

Questions: 27 and 28 are based on figure 2 below.



27. If the full employment level of national income is Y_2 what type of budget is needed to close CD?

28. If Y_1 is the full employment level of output identify AB.

29. Which of the following is not necessary for price discrimination?

- a) Different elasticity' in different markets.
- b) Market sealing.
- c) Market segmentation
- d) Market branding.

30. What does the abbreviation ECOWAS stands for and where is the headquarters?

Questions 31, 32, 33, and 34 refer the following table which shows the relationship between employment (L) and output (TPL)

L	0	1	2	3	4	5	6	7	8	9
TPL	0	3	8	12	15	17	17	16	13	11

31. At what level of output is marginal product of labour highest?

32. Where does the law of diminishing returns for labour begin to operate?

33. Identify the range of employment within which a rational producer will produce.

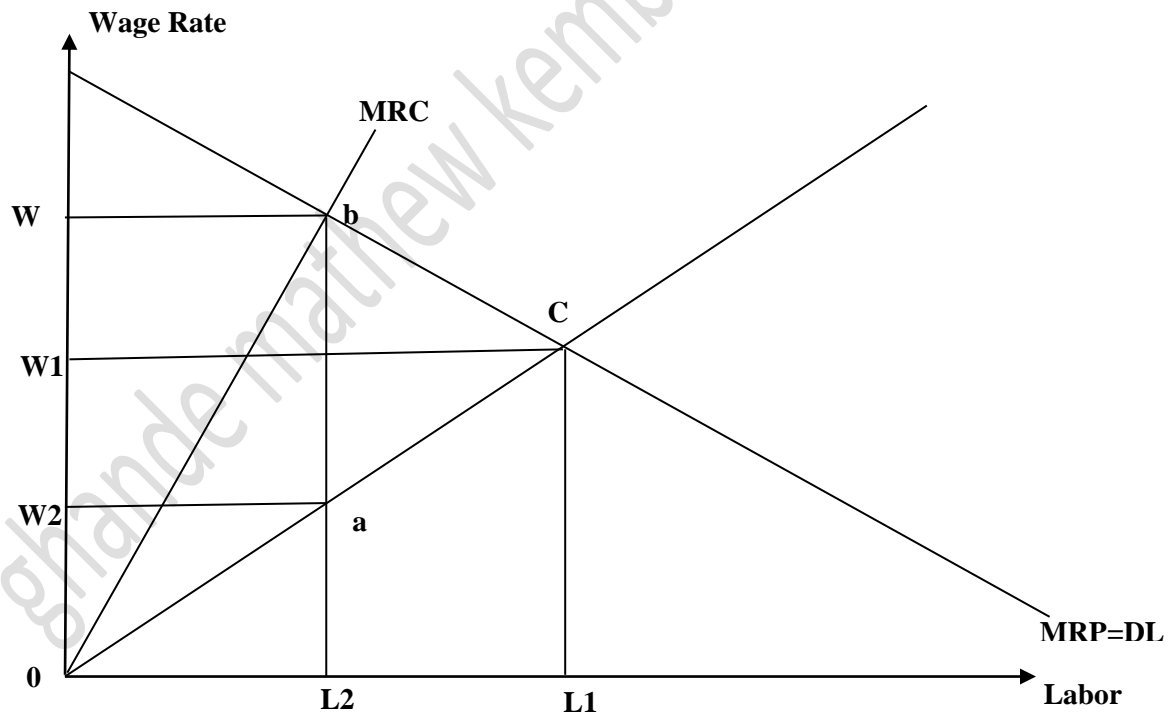
34. Where the third stage of production does begins?
 35. UTOPIA and AFANA have the same labour capacity and produce as follows

UTOPIA	80 tons of rice and 40 tons of yams
AFANA	30 tons of rice and 40 tons of yams

Which country has a comparative advantage in the production of yams?

36. In the balance budget multiplier model if the multiplier is 10. What will happen to GDP if there is simultaneous increase in both government in both government spending and taxation by 50 million?
 37. The UN agency whose main function is to provide international liquidity is called?
 38. Which of the following does not characterize developing countries?
 a) Low per capita income.
 b) Low population dependency ratio.
 c) Low productivity.
 d) Low saving rate.

Questions 39 and 40 refer to the following diagram in figure



MRC: marginal cost of labour, MRP: marginal product of labour, SL: labour supply, DL: Labour demand

39. What is the difference between what labours contributes and the wage which the monopolist pay to labour?

40. What wage will be paid be a perfect competitor?

PRE-LESSON EXAMINATION

1. What is the “raison d’etre” of economics?

2. Every economy suffers from one economic problem. Name it.

Question 5, 6 and 7 refer to the following data which shows a capital structure of a company. 200 10% debentures of 500FRS each.

100 5% preference shares at 1.000FRS each

600 ordinary shares at 1.000FRS each.

3. What is the capital gearing of this company?

4. If in a given year the company makes profits of 4.150.000frs. What share of this profit will go to debenture holders?

5. Determine the profits that ordinary shareholders will earn.

6. You have the following data about the market for mangoes.

P(CFA)	9	8	7	6	5	4	3	New	9	8	7	6	5	4	3
Qd(kg)	80	65	41	45	49	53	57	QdN	36	43	49	53	57	61	65
Qs(kg)	62	60	57	53	49	45	41	QsN	92	60	57	53	49	45	41

a) What is the equilibrium price and why?

b) What will be the effect of the government fixing a maximum price of

i) 6CFAF

ii) 4CFAF

c) What would be the effect on the equilibrium price if demand increases by 8kg at all price levels?

d) Suppose that the government gave mango producers a subsidy of 2CFAF per kg, what would be the new market price using the original schedule?

7. What is the significance of the 45° line of the expenditure-income?

Below are some hypothetical figures for a country. Figures are in millions FCFA

GNP at market prices..... 4700

Taxes on expenditure80

Capital consumption60

Property income from abroad80

Property income paid abroad50

Subsidies100

Calculate the following (8 to 12)

8. GDP at market prices.

9. NNP at market prices.

10. NNP at factor cost.

11. GDP at factor cost.

12. NI.

In the following questions, say true or false.

13. The larger the MPC the smaller the resulting multiplier.

14. The price ceiling is an imposed price above the equilibrium.
15. When supply and demand both increased equilibrium price will rise.
16. Sometimes an increase in income causes demand for a good to fall.
17. If a society was richly endowed with natural resources it will not face the economic problem.
18. Marginal cost refers to cost that can not be avoided.
19. 75% of the world's population receives less than 28% of the world income.
20. 20% share a face value of 1000FRS has a market value of 1600FRS calculate its yield.
21. The standard of living of a country depends on: a) the resources at its command b) the techniques of production it adopts c) its ability to refrain from current consumption to augment future production d) the amount of money issued by the central bank of the country.
22. Which of these statements is not a reflection of the enterprise economy; a) the interest of the society should always prevail over the interest of the individual b) the ownership of private property is the key factor c) the pursuit of profit is the main aim of the economic activities d) resources are allocated through the operation of the price system.
23. The term over population refers to a) geographical density of the population b) net migration in relation to population c) the relationship between the population and the available area for cultivate land d) the relationship between population and economic resources available.
24. Which of these is likely to result to a new demand curve for superhot mint? a) a rise in the price of sugar b) a new alternative method of wrapping superhot mint c) a specific tax of 100F levied on every packet of superhot mint d) a 200F reduction in the recommended retail price of superhot mint.
25. An individual consumer's behavior when making a purchasing decision cannot be explained by a) the classical utility approach b) the theory of least cost combination c) indifference curve analysis d) the revealed preference theory.
26. All the following are determinants of supply except a) price b) income levels c) objectives of the firm d) level of technology
27. If an increase in the price of blue jeans leads to an increase in the demand for tennis shoes then blue jeans and tennis shoes are a) complements b) substitutes c) inferior goods d) normal goods.
28. Stagflation occurs when the economy experiences a) rising price and rising output b) rising price and falling output c) falling prices and falling output d) falling prices and falling output.
29. For an economy as a whole, income equals expenditure because the income of the seller equals the expenditure of the buyer a) True b) False
30. One country enjoys comparative advantage over the other in producing oil when a) it has more oil than the other b) it does not need to import oil c) none of the above.

31. As more labour is added to a fixed amount of input, the rate at which output goes up begin to decrease. This is called a) diminishing marginal utility b) diminishing marginal productivity c) diminishing marginal cost.
32. The rate at which one firm can substitute one factor for another while still producing the same level of output is known as _____

ANSWERS TO ECONOMICS 2003

- 1) Funding, open market operations, special directives, moral suasion, special deposits etc.
- 2) There exist changes in the terms of trade and changes in the interest rate.
- 3) Cost effective means the cost of collecting a taxes should not be more than the tax collected.
- 4) Scarcity, choice, opportunity cost, economic development and economic growth, underemployment etc.
- 5) PSBR (Public Sector Borrowing Requirements) is the total amount of money the public corporations, local and central government authorities need to borrow from within and without the country. It is finance by selling government securities.
- 6) Mirror relationship.
- 7) Human investment is the skills which an individual acquires to increase his or her productive capacity.
- 8) Question 8 is answered using the following table;
- 9)

Price (FCFA)	9	8	7	6	5	4	3
Qd(kg)	80	35	41	45	49	53	57
Qs(kg)	62	60	57	53	49	45	41
NQd(kg)	88	43	49	53	57	61	65
NQs(kg)	-	-	62	60	57	53	49

- a) 5FCFA
- b) I) Supply will exceed demand by 8kg
 II) Demand will exceed supply by 8kg
- c) The equilibrium price will increase to 6FCFA
- d) The new equilibrium price will be 4FCFA
- 10) The line shows the points which aggregate demand equals aggregate supply.
- 11) By recording only the final value of every output produced in a country.
- 12) The J-curve shows the effect of government action balancing a balance of payment disequilibrium.
- 13) curve

An individual labour supply curve is an abnormal supply curve. This is because a continuous increase in the wage rate of an individual will cause him to continue increasing the SS of labour until he reaches a target wage rate (W_e) thereafter, any increase in the wage rate will cause the individual to will cause the individual to reduce the SS of labour (from H_e to H_1).

14) a) $k(\text{the multiplier}) = \frac{1}{1-MPC} = \frac{1}{1-0.8} = 5MFCF$

b) $\Rightarrow I = 45MFCFA$ but initially, it was $40MFCFA$

$\Rightarrow Y = C + I$

$Y = 0.8Y + 40 \Rightarrow Y - 0.8Y = 40 \Rightarrow 0.2Y = 40$ and $Y = 200MFCFA$

Thereafter,

$Y = 0.8Y + 45 \Rightarrow Y - 0.8Y = 45 \Rightarrow 0.2Y = 45$ and $Y = 225MFCFA$

This implies that, the level of national income has increased by $25MFCFA$.

c) See above ($225MFCFA$)

14) Privatisation.

15) We first of all look at the MTR and ATR.

When $MTR = ATR$, the tax is proportional

When $MTR > ATR$, the tax is progressive

When $MTR < ATR$, the tax is regressive

But $MTR = \frac{\text{Change tax paid}}{\text{Change in income}}$ and $ATR = \frac{\text{amount of tax paid}}{\text{total income}} \times \frac{100}{1}$

$\Rightarrow A$ is progressive

B is proportional

C is progressive

D is regressive

E is progressive

16) Commercial banks create money from deposits. These deposits are in turn given to borrowers in the form of loan. Commercial banks have this ability because only a small proportion of the deposit is kept as cash. The rest of the money is used as reserves which form the basis of loans of a much greater value than those reserves. In determining the maximum they can lend, we make use of the credit reserve. In determining the maximum they can lend, we make use of the credit creation multiplier.

$\text{Credit creation multiplier} = \frac{100}{\text{cash ratio}}$

Therefore, the maximum additions deposit a bank can create given a specific amount of cash

deposit (n) is $\left(\frac{100}{\text{cash ratio}} * n\right) - n$ non liquid assets or $\frac{100}{\text{cash ratio}} * n$ total assets.

ANSWERS TO ECONOMICS 2004

1. Scarcity and choice

2. Externalities are spill over effects of consumption and production.

3. $Qx = 100(8 - Px) = 800 - 100Px$

4. $Qx = 100(2Px - 4) = 200Px - 400$

5. $800 - 100Px = 200Px - 400 \Rightarrow 300Px = 1200 \Rightarrow Px = 4$

Market quantity $\Rightarrow Qx = 800 - 100Px = 800 - 100(4) = 400$

6. There will be excess demand over supply.

7. Black marketing and rationing will occur.

8. A good is a luxury when its income elasticity is greater than one, necessity when it is greater than one, inferior when it is less than zero.

9. Income and price
10. See 2006 q19
11. See 2006 q20
12. See 2006 q21
13. See 2006 q22
14. Idle balances are money kept for precautionary and speculative motives .
15. At equilibrium, money supply equals demand for money but $MSS = \text{speculative} + \text{precautionary} + \text{transactionary motives} = 420 + 80 + 100 = 600 \text{MFCFA}$
16. 80MFCFA
17. Maximum additional deposit = $\left(\frac{100}{10} \times 24\right) - 24 = 216 \text{MFCFA}$
18. An inflationary gap is when the full employment level of income is greater than the equilibrium level of income.
19. Increase government expenditure.
20. For an open economy, $S + T + M = I + G + X$
21. True
22. True
23. False
24. True
25. True
26. Slumpflation
27. $NPIA = GNP - GDP = 2900 - 2600 = 300 \text{MFCFA}$
28. $T = GDP(mp) + S - GDP(fc) = 3100 + 200 + 2600 = 700 \text{mfcfa}$
29. Capital consumption = $GNP(fc) - NI = 2900 - 2700 = 200 \text{MFCFA}$.
30. A pegged exchange rate is one which is fixed against the value of another currency or currencies and it is guaranteed by the government.
31. Multiplier = $\frac{1}{1-MPC} = \frac{1}{1-0.8} = 5$
32. Saving function is $-100 + 0.2y$
33. $S = I \Rightarrow -100 + 0.2(1000) = I \Rightarrow I = 100 \text{MFCFA}$
34. Rational plan
35. Regressive tax
36. Globalization
37. World Trade Organisation
38. Price discrimination
39. Patent rights
40. Economic growth is an increase in the productive capacity of an economy.

ANSWERS TO ECONOMICS 2005

1. Slumpflation is the coexistence of inflation and a constant fall in the output level in an economy and rising unemployment.