



Introduction to Economics and Finance

Certificate in Accounting and Finance
Model Paper

100 marks – 3 hours

Instructions to candidates:

- (i) *All the Questions from Section A are compulsory.*
(ii) *Attempt any FIVE out of SEVEN Questions from Section B.*

Section A

Q.1 Select appropriate answer from the options available for each of the following Multiple Choice Questions (MCQs). Each MCQ carries ONE mark.

- (i) The short-run average cost curve is:
(a) Upward sloping (b) Downward sloping
(c) U shaped (d) A straight line
- (ii) A profit maximising firm will produce output where:
(a) Total sales are maximised (b) Average total costs are minimised
(c) Marginal cost equals marginal revenue (d) Average revenue is maximized
- (iii) If planned injections are less than planned withdrawals:
(a) Unemployment will tend to reduce (b) Inflation will tend to rise
(c) Balance of trade will tend to improve (d) National income will tend to rise
- (iv) Which of the following is a direct tax?
(a) Federal excise duty (b) Value added tax
(c) Sales tax (d) Capital gains tax
- (v) Demand curve slopes downward because of:
(a) Consumer indifference (b) Elasticity of demand
(c) Law of diminishing marginal utility (d) Inelastic demand
- (vi) The GDP deflator is the:
(a) Ratio of nominal GDP to real GDP multiplied by 100
(b) Ratio of real GDP to nominal GDP multiplied by 100
(c) Difference between real GDP and nominal GDP multiplied by 100
(d) Difference between nominal GDP and real GDP multiplied by 100
- (vii) Which of the following instruments are **NOT** traded in the capital market?
(a) Corporate bonds (b) Treasury bills
(c) Mortgages (d) Shares
- (viii) Which of the following is **NOT** a characteristic of oligopolies?
(a) Mutual dependence (b) Growth through merger
(c) Large number of firms (d) Non-price competition
- (ix) The curvature of Production Possibility Curve is due to:
(a) Change in opportunity cost (b) Increase in resources
(c) Decrease in demand (d) Decrease in supply

- (x) The concept of Multiplier discusses:
 (a) Savings and investments (b) Income and investments
 (c) Income and expenditure (d) Income and savings
- (xi) A stimulative fiscal policy combined with a restrictive monetary policy will necessarily cause:
 (a) gross domestic product to increase (b) interest rate to fall
 (c) gross domestic product to decrease (d) interest rates to rise
- (xii) Which of the following are regarded as withdrawals from the circular flow of income?
 (a) saving and taxation (b) export and import
 (c) Government spending and borrowing (d) investment and saving
- (xiii) Which of the following would reduce inflation?
 (a) an increase in direct taxes (b) an increase in indirect taxes
 (c) increase in government spending (d) increase in income
- (xiv) When one country is more efficient in the production of a particular good as compared to another country, that country is said to have:
 (a) economies of scale (b) an oligopoly
 (c) comparative advantage (d) absolute advantage
- (xv) All of the following are determinants of supply except:
 (a) price (b) income level
 (c) level of technology (d) objectives of the firms

- Q.2 (a) Explain how the resource allocation choices are made in a market economy and in a planned economy. (04)
 (b) Briefly describe any **four** demerits of free market economy. (06)
- Q.3 (a) Explain briefly any **four** factors which determine the Price Elasticity of Demand. (06)
 (b) Illustrate the relationship between the price and quantity demanded with the help of a diagram when the price elasticity of demand is Elastic, Unitary Elastic and Inelastic. (*Explanation is not required*) (06)
- Q.4 (a) Narrate the basic assumptions applicable to the Indifference Curve Approach. (03)
 (b) Explain with the help of an appropriate diagram, the price output determination under monopolistic competition in the short-run. (10)

Section B

- Q.5 What do you understand by the term “financial market”? Identify and briefly explain any **four** types of financial instruments that are traded on financial markets. (10)
- Q.6 (a) Draw a Diagram of Circular Flow of Income. (04)
 (b) Identify and explain briefly the **three** different types of Withdrawals and Injections from the Circular Flow of Income. (06)

- Q.7 (a) What is meant by Recession? What economic characteristics are most commonly observed during Recessionary periods? (06)
- (b) What do the terms Demand-pull inflation and Cost-push inflation mean? (04)
- Q.8 Determinants of consumption function do not change in short run. Explain. (10)
- Q.9 (a) Identify **eight** functions which are generally performed by the central bank in a country. (04)
- (b) What role does the central bank play in controlling the process of credit creation? (06)
- Q.10 (a) What do you understand by the term 'fiscal policy'? What are its main objectives? (06)
- (b) What fiscal measures does the government take to increase the level of employment? (04)
- Q.11 (a) What is Balance of Payments? What is meant by the term Deficit in the Balance of Payments? (03)
- (b) Briefly describe the main causes of disequilibrium in the balance of payments. (07)

(THE END)