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MARCH 2023

The Teachers' Resource Unit and the Regional Inspectorate of Pedagogy, in collaboration with the North West Economics Teachers' Association (NOWETA)	SUBJECT CODE NUMBER **0725**	PAPER NUMBER **3**
ADVANCED LEVEL GENERAL CERTIFICATE OF EDUCATION AND ADVANCED TECHNICAL AND VOCATIONAL EDUCATION REGIONAL MOCK EXAMINATION	SUBJECT TITLE **ECONOMICS**	
ADVANCED LEVEL		

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Time Allowed: **One and three quarter hours**

INSTRUCTIONS TO CANDIDATES

Mobile phones are **NOT ALLOWED** in the examination room.

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. "The Law of demand applies to all customers. There is a negative relationship between price and quantity demanded, ceteris paribus. As the price of a commodity increases and nothing changes, the consumer moves upwards along the demand curve and buys a smaller quantity of the product. For instance, if the price of a good increases from 8 FCFA to 10 FCFA, then a consumer buys only 1 unit per month down from 4 units....

There is a positive relationship between price and the quantity supplied ceteris paribus. As the price of a commodity increases and nothing else changes, the producer moves upward along the individual supply curve and produces a larger unit. For instance, if the price increases from 8 FCFA to 10 FCFA, the producer produces 4 units per month up from 1 unit...

The key factor in determining the price elasticity of demand for a particular product is the availability of substitutes. The availability of substitutes increases over time, so the longer the time consumers have to respond to a price change, the more elastic the demand..."

Source: Adopted from Economics, Principles, Applications and Tool,
by O Sullivan et al, 5th Edition, pg 68.

a) i) State **three** reasons for the negative relationship between price and quantity demanded. **(3 marks)**

ii) Give **two** reasons why the supply curve slopes upwards. **(2 marks)**

b) From the above passage and with the aid of a graph paper, estimate the equilibrium:

i) quantity.

ii) price. **(4 marks)**

c) What is the price elasticity of demand for the product in question? **(3 marks)**

d) State **four** determinants of price elasticity of demand apart from those stated in the passage. **(4 marks)**

e) List any **four** circumstances in which demand will not respect the negative relationship mentioned in the passage. **(4 marks)**

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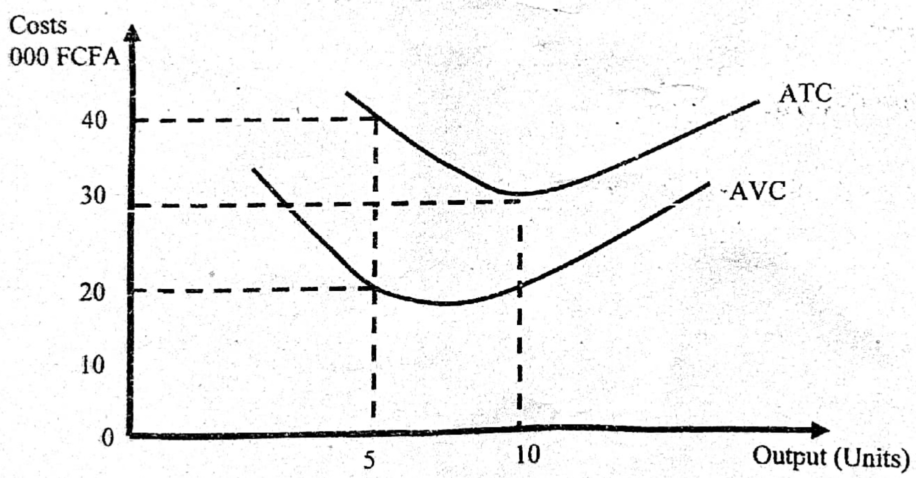
2. Figure 1 below shows the short run average cost curves of a firm.

Figure 1



a) i) Sketch an AFC curve in the diagram. Give reasons for its shape. **(4 marks)**

ii) Briefly account for the shapes of the average variable costs and average total costs curves. **(6 marks)**

b) Determine the:

i) amount of the average fixed costs at the output of 10 units. **(2 marks)**

ii) value of total costs at the firm's technical optimum. **(3 marks)**

c) Establish a relationship between this firm's average total cost and its marginal cost: **(3 marks)**

d) If this firm were a perfectly competitive one operating in the long run, below what price should it shut down? **(2 marks)**

3. Traditionally, the Bank of Central African States (BEAC) renews its range of bank notes every ten years. On November 7th, 2022, BEAC's monetary authorities announced the introduction of new banknotes. Undoubtedly, the injection of a new range of these banknotes in CEMAC Zone has several facts and can be interpreted in different ways.

First of all, considering the current global situation marked by strong inflation pressures at both national and international levels, the injection of new banknotes will increase the propensity of economic agents to hold the new banknotes and use the older banknotes.... In an event that the Central Bank decides to increase the quantity of money in circulation, it is obliged to use other means.

Secondly, the introduction of new banknotes will strengthen the security and the durability of the notes.

(Source: Unpublished article, November, 2022)

a) Why are the banknotes issued by BEAC considered as:
   i) legal tender?
   ii) fiduciary issue? **(4 marks)**

b) State **three** attributes of money apart from those listed in the passage above. **(3 marks)**

c) i) Briefly explain what is meant by monetary inflation.
   ii) What economic concept qualifies the underlined phrase in the passage above?
   iii) Give **three** reasons why economic agents hold money. **(7 marks)**

d) State **two** ways through which the Central Bank can facilitate the withdrawal of old banknotes from circulation. **(2 marks)**

e) Besides printing new banknotes and coins, state **four** other functions of BEAC in the CEMAC Zone. **(4 marks)**

4. Table 1 below shows the domestic demand for and supply of cocoa by a given economy. Assume that the world's supply of cocoa is perfectly elastic at the price of 100 FCFA per ton of cocoa.

Table 1

Price per ton(FCFA)	50	100	150	200	250	300
Domestic Demand	800	700	600	500	400	300
Domestic supply	300	400	500	600	700	800

a) Distinguish between domestic demand and domestic supply as used in international trade. **(2 marks)**

b) i) On a graph paper, plot the curves of the domestic demand for and supply of cocoa. **(4 marks)**
   ii) Indicate the world supply (WS) curve on the diagram in b (i) above. **(2 marks)**

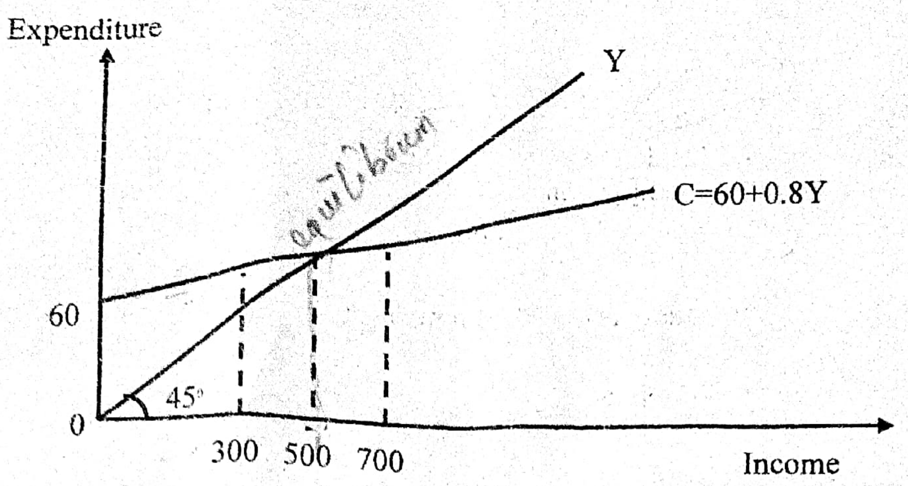
c) From b (ii) above, determine the:
   i) quantity of cocoa supplied domestically. **(2 marks)**
   ii) quantity of cocoa demanded domestically. **(2 marks)**
   f) volume of imports. **(2 marks)**

d) If a tariff of 50 FCFA is introduced per ton of cocoa, indicate the new world supply (WS^1) curve on the diagram in b(ii) above. **(2 marks)**

e) State **four** positive effects of tariffs on the economy of Cameroon. **(4 marks)**

5. Figure 2 below shows the national income equilibrium for an imaginary two–sector frugal economy. All values are realized and not planned. Figures are in million FCFA.

Figure 2



a) i) List the economic agents of such an economy. **(2 marks)**

ii) Distinguish between autonomous and induced consumption specifying their values from the consumption function in figure 2 above. **(4 marks)**

b) Determine:

i) the level of investment.

ii) total consumption given the equilibrium level of income above. **(5 marks)**

c) Derive the savings function and below figure 2 above, sketch a diagram to show the level of equilibrium national income using the injection/withdrawal approach. **(2+3 marks)**

d). Assuming that the level of investment in b(i) above doubles and the new equilibrium level of income(Y1) is 700 million FCFA.

i) Define the multiplier and **(2 marks)**

ii) Determine the value of the multiplier **(2 marks)**

END