



LITTORAL ECONOMICS TEACHERS ASSOCIATION
(LETA)



General Certificate of Education Regional Mock Examination

MARCH 2023

ADVANCED LEVEL

Subject Title	Economics
Paper No.	3
Subject Code No.	0725

1 HOUR 45MINUTES

INSTRUCTIONS TO CANDIDATES

Answer **ANY THREE QUESTIONS**. All questions carry equal marks.

- You are advised to spend the first 15 minutes reading the paper.
- In calculation, 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.

Graph paper & noiseless simple calculators are needed

LITTORAL MOCK – A/LEVEL ECONOMICS PAPER 3

QUESTION 1

Products X, Y and Z are produced in goods and labour markets that operate under conditions of perfect competition. Product X has an income elasticity of demand of -0.4, product Y an income elasticity of demand of 0.5 and product Z an income elasticity of the demand of 1.6.

Firms produce X, Y and Z, and at the start of period all the firms in each industry are in long run equilibrium. In the next year there is a rise of 10% in average real consumers disposable income.

- a) What term would be used to describe;
 - i) Good X (2mks)
 - ii) Good Y (2mks)
 - iii) Good Z (2mks)
- b) Calculate how change in income will affect the demand for each good. (10mks)
- c) State four factors that will increase the price elasticity of demand of good Z. (4mks)

QUESTION 2

The information below concerns government income and expenditure of a hypothetical country. Answer the questions that follow.

Government Income (%)

1. VAT = 14
2. Corporation Tax = 8
3. Income Tax = 21
4. Business rates and council tax = 7
5. Excise duty = 10
6. National insurance contribution = 14
7. Borrowing = 17
8. Others = 9

Government Expenditure (%)

1. Health = 13
2. Social security = 30
3. Law and order = 7
4. Defence = 9
5. Education = 15
6. Transport = 4
7. Debt interest = 10
8. Other services = 12

- a) What is the main source of government tax reference? (2mks)
- b) What will cause VAT revenue to fall? (4mks)
- c) List three direct taxes from the information above. (3mks)
- d) Identify 3 forms of government expenditures considered as dead weight expenditures. (3mks)
- e) List two forms of government expenditure which are likely to fall with an increase in economic activities. (4mks)
- f) List four other sources of government income that make up the 9% of income on the data above. (4mks)

QUESTION 3

A firm is contemplating to buy a machine with an expected life span of five (50 years). The cost of the machine is 135,000 Frs and the rate of interest is 10% on loans. Given the following cost and revenue schedule, answer the following questions

Year	Variable cost	Expected Revenue
1	100,000	150,000
2	160,000	210,000
3	220,000	250,000
4	280,000	300,000
5	320,000	330,000

- a) Advise the firm on its investment decision. (10mks)
- b) If the scrap value of the machine is 30,000Frs:
 - i) What is the meaning of scrap value? (2mks)
 - ii) How will this affect the investment decision of the firm? (4mks)
- c) Apart from high rate of interest, what are the other factors that will reduce investment in a country? (4mks)

QUESTION 4

The data below gives information about the assets and liabilities of the balance sheet of bank M in Cameroon in a given year. Figures are in millions of francs CFA. Study the data and answer the questions that follow:

- i) Customers' current amount deposit = 5000
- ii) Current account deposit at the central bank = 800
- iii) Notes and coins in till = 800
- iv) Money at call and short notice = 600

- v) Investment = 1500
- vi) Advances = 2500
- vii) Treasury bills = 900
- viii) Customers' saving account deposit = 3000
- ix) Special deposit = Y

- a) Define the following terms used above
 - i) Assets (2mks)
 - ii) Liability (2mks)
- b) Find the value of Y (2mks)
- c) Classify the assets in an increasing order of profitability and descending order of liquidity. (4mks)
- d) Calculate the bank's:
 - i) Cash ratio (2mks)
 - ii) Liquid assets ratio (2mks)
- e) State three (03) reasons why the central bank may limit the excess creation of credits by commercial banks (3mks)
- f) State three (03) tools that BEAC may use to control the excess creation of credit by commercial banks in Cameroon. (3mks)

QUESTION 5

Substantial growth of small firms sector is desirable as a means of reducing unemployment and improving the health of the economy in general. The economic environment is clearly the main influence on growth of this sector. But in the present situation, the causality is reversed as the expansion of small firms sector would be instrumental in the recovery of the economy.

Source: Martin Binks, finance for the expansion of small firms.

Lloyds Bank review October 1979.....Page 26.

- a) List four factors that influence the location of firms in Cameroon. (4mks)
- b) Small firms can grow by merging. State two forms of merging. (2mks)
- c) State four advantages of small firms to the society. (4mks)
- d) State four ways by which the government can influence the location of small firms in Cameroon. (4mks)
- e) List two internal economies of scale enjoyed by large firms. (2mks)
- f) List four reasons why small firms still exist in the society despite the benefits of growth. (4mks)