

0725/3/2023  
A/L ECONOMICS

**SOUTH WEST REGIONAL MOCK EXAMINATION  
GENERAL EDUCATION**

**THE TEACHERS' RESOURCE UNIT (TRU)**  
Cellule d'appui à l'action Pédagogique

**IN COLLABORATION WITH**  
En collaboration avec

**THE REGIONAL INSPECTORATES OF PEDAGOGY AND  
THE SUBJECT TEACHERS' ASSOCIATIONS (STA)**

**Monday 20<sup>th</sup> March 2023 (Afternoon Session)**

**ADVANCED LEVEL**

Subject Title	ECONOMIS
Paper Number	Paper 3
Subject Code Number	0725

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**One and three quarter hours**

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**INSTRUCTIONS TO CANDIDATES:**

*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, giving your answer at each stage.*

*You are reminded of the necessity for good English and orderly presentation in your answers.*

*Calculators are allowed.*

1. Be it demand-pull or cost-push, if the rate of inflation keeps growing, even if it is correctly anticipated, our economy will be in big trouble. In a hyperinflation, there are ultimately only losers. People on fixed income, especially those who are retired, have also traditionally been hurt by inflation. But in recent years, social security benefits have been indexed for inflation.....

Source: Adopted from *Introduction to Economics* by Stephen L. Slavin, 1991 (P. 174).

- a. Define the term indexation as implied in the underlined phrase. (3marks)
- b. i. Distinguish between demand-pull inflation and cost-push inflation. (4 marks)  
 ii. State any three causes of demand-pull inflation. (3 marks)
- c. Apart from hyperinflation used in the passage, give any three other forms of inflation. (3 marks)
- d. Identify any three beneficiaries of inflation. (3 marks)
- e. State any four remedies to inflation. (4 marks)

2. The table below shows the total utility of a house wife for rice, beans and fish every Friday with a budget of 7,200FCFA.

Quantity (Kg)	TU of Rice	TU of beans	TU of Fish
1	1600	2000	2800
2	2800	3800	5400
3	3600	5400	7800
4	4200	6800	9800
5	4600	8000	11000
6	4900	9000	12000
7	5100	9800	12400
8	5200	10400	12600

The goods are valued at the following prices: Rice = 400FCFA Beans= 800FCFA Fish = 1200FCFA

- a. If she wishes to consume all three goods and maximize satisfaction. How many of each will she consume and why? (8 marks)
- b. If she wants to buy beans only, what quantity will she buy, given the budget constraint? Give a reason for your answer. (4marks)
- c. Given the circumstance in (b) above, calculate the:
  - i. Consumer surplus? (3 marks)
  - ii. Balance of income after expenditure? (3 marks)
- d. State two criticisms of the cardinal approach of consumer equilibrium. (2 marks)

3. In a perfectly competitive market, each producer acts in his/her own self-interest...Further, each consumer also acts in his/her own self-interest. There is no omniscient social planner telling producers and consumers how to behave so that the efficient level of output is produced. Nevertheless, the output produced in a competitive market is the one that maximizes net economic benefits (as measured by the sum of surpluses).

Source: Adapted from *Microeconomics* by David Besanko and Ronald Braeutigam, Page 390.

- a. State four characteristics of a competitive market. (4 Marks)
- b. Which economic term best describes the underlined phrase? (2 Marks)
- c. In addition to the merits of competitive markets highlighted in the passage, state any three disadvantages of competitive markets. (6 Marks)
- d. Illustrate the short run equilibrium of :
  - i. A high cost firm in a competitive market. (4 Marks)
  - ii. A low cost firm in a competitive market. (4 Marks)

4. The level of national income in an economy currently stands at 1,000 MFCFA. At the same time, the following statistics exist.

Consumption (C)	= $0.8Y^d$
Net investment (I)	= 20 MFCFA
Government spending (G)	= 60 MFCFA
Exports (X)	= 40 MFCFA
Imports (M)	= $0.2Y$
Income taxes ( $T^d$ )	= $0.5Y$

Where  $Y^d$  is disposable income and  $Y$  is total income

- a. i. Using the injections/withdrawals method, state the equilibrium condition of this economy. **(2 Marks)**
- ii. Using the injections-withdrawal approach justify whether 100MFCFA is the equilibrium level of income. **(4 Marks)**
- b. Determine the equilibrium level of income in this economy if 100 MFCFA is not the actual equilibrium. **(3 Marks)**
- c. i. What is the nature of this economy? **(2 Marks)**
- ii. Determine the value of the multiplier. **(3 Marks)**
- d. i. Define a trade gap. **(2 Marks)**
- ii. Does this economy have a trade gap? Justify. **(4 Marks)**
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5. Don't let this happen to you! Don't confuse Balance of Trade (BOT), Current Account Balance and Balance of Payments (BOP). The terminology of international economics can be tricky... Even though the BOP is equal to the sum of the current account balance and financial account balance-and must equal zero- you may sometimes see references to a BOP "surplus" or "deficit". These references have two explanations: The first is that the person making the reference has confused the BOP with either the BOT or the current account balance-which is very common. Alternatively, he may not include official reserve transactions in the financial account. If we separate changes in a country's holdings of foreign currencies and changes in foreign holdings of its currency from other financial account entries, the current account balance do not have to sum to zero and there can be BOP surplus or deficit. This may sound complicated – and it is!

*Source: Adapted from Macroeconomics by R. Glenn Hubbard and Anthony Patrick O'Brien, 2<sup>nd</sup> ed. Page 593.*

- a. Define the following terms as used in the passage:
- i. Balance of Trade **(2 Marks)**
- ii. Balance of Payments **(2 Marks)**
- iii. Current Account balance **(2 Marks)**
- b. Briefly explain what the writer means by the Balance of Payments must equal zero. **(4 Marks)**
- c. List four negative effects of a Balance of Payments deficit. **(4 Marks)**
- d. i. State any four measures Cameroon can use to improve on its Balance of Trade. **(4 Marks)**
- ii. Enumerate any two items you would find in the official financing section of a country with a Balance of Payments deficit. **(2 Marks)**

**END**