

ECONOMICS (003) MAY/JUNE 2009

QUESTION 1

The number of bad oranges (x) in baskets of equal number of oranges picked in a farm are:

4	3	0	3	1	3
0	1	1	4	3	2
5	2	2	1	1	0
1	0	2	0	2	1
5	3	1	0	2	4

- a. Using table
- i. Form a frequency distribution of the data
 - ii. Form the cumulative frequency distribution
- b. Construct the histogram and frequency polygon of the distribution.

Ans.

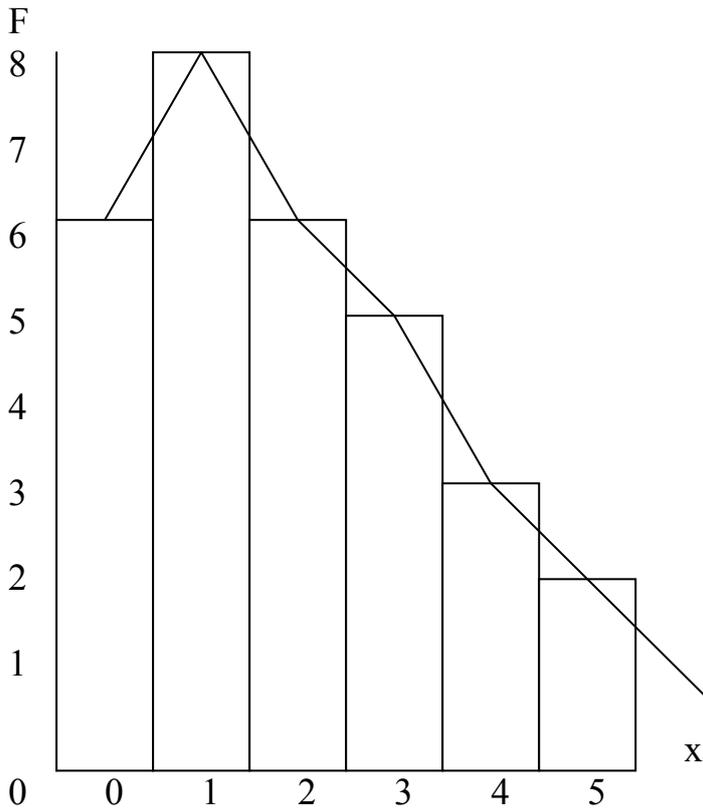
a. i.

X	F
0	6
1	8
2	6
3	5
4	3
5	2

ii.

X	F	CF
0	6	6
1	8	14
2	6	20
3	5	25
4	3	28
5	2	30

b. Histogram and frequency polygon



QUESTION 2

The following data relate to a closed economy of a country where all production takes place in two firms. Use the information in the table to answer the questions that follows:

ITEMS	FIRM A (IN 000 DOLLARS)	FIRM B (IN 000 DOLLARS)
SALES	200	400
RAW MATERIALS	100	60
LABOUR COST	80	160
DEPRECIATION	16	40
PROFITS	4	140

- a.
 - i. Which of the items listed above is an intermediate input?
 - ii. What happens to intermediate input in the calculation of the national income.
- b.
 - i. Calculate the total amount of depreciation of the country
 - ii. Calculate the Net domestic product of the country.

Ans.

- a.
 - i. The intermediate input in the table above is raw materials

- ii. Intermediate input are not counted when calculating national income.
- b. i. The depreciation for the country
 $\$16000 + \40000
 $= \$56000$
- ii. Net domestic product (NDP)
NDP is GDP less depreciation
 $GDP = \$200,000 + \$400,000$
 $= \$600,000$
 $NDP = \$600,000 - \56000
 $= \$544,000$

QUESTION 3

- a. Distinguish between Division of labour and specialization
- b. Explain THREE factors which limit the importance of division of labour in production activity

Ans.

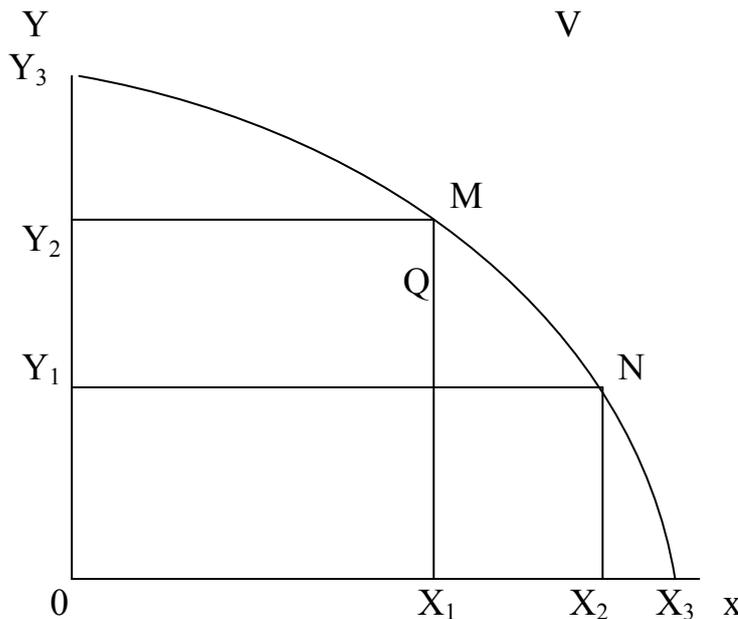
- a. Division of labour is the breaking down of the production process into a number of separate operations with each operation being undertaken by an employee or a group of employee while specialization is the concentration of productive efforts on a particular activity in which the comparative advantage is highest.
- b. Limitations on division of labour
 - i. The extent of demand for the product/market
 - ii. The managerial capability of the entrepreneur
 - iii. The nature of the product e.g unique talent or directive service.
 - iv. The efficiency/effectiveness of the distribution channel.
 - v. Availability of labour.

QUESTION 4

- a. Explain the following concepts using appropriate examples
 - i. Opportunity cost
 - ii. Scarcity
- b. With the aid of a diagram, explain the production possibility curve.

Ans.

- a.
 - i. Opportunity cost is the best alternative want sacrificed in order to satisfy another want due to scarcity of resources. For example, a farmer may utilize his limited resource to produce cocoa instead of yams. The yams foregone is the opportunity cost of the cocoa produced,
 - iii. Scarcity means inadequate supply of economic goods and services, money, time productive resources, goods and services are all limited in supply for example, a student may be in need of a pair of shoes and text book on economics each costing N1000, if the student has a total sum of N1200. It means he does not have enough to satisfy the two wants. This implies that his resources are scarce.
- b. The production possibility curve is a graph showing various combinations of two commodities that can be produced with given resource and level of technology.



The production possibility curve above shows the various combinations of commodities x and y that can be produced with given resources. Production combination can be either (ox, y₃) quantities or (x₃, 0y) quantities. Movement along the curve means producing more of one of the commodities and less of the other. i.e, movement from M to N or from N to M. point V is unattainable because of limited resource, Point Q implies under-utilization of resource.

The production possibility curve can be used to explain economic concepts of scarcity, choice, opportunity cost and economic development.

QUESTION 5

- a. Explain the term “Industrialization”
- b. Examine the role of industrialization in the economic development of Nigeria.

Ans.

- a. Industrialization is the process of increasing the volume of productive activities and development of technology so as to increase the economic welfare of the people. It involves the development of the agricultural, mining, manufacturing, commercial, construction and energy sectors of the economy with the aim of increasing economic well being.
- b. The role of industrialization in economic development of Nigeria include
 - i. Provision of employment opportunities for Nigeria
 - ii. Diversification of the Nigeria economy which reduces over dependences on agriculture
 - iii. Improvement in the balance of payment of Nigerians
 - iv. Increased government revenue through taxation
 - v. An enlarged market for agricultural products
 - vi. Increased foreign exchange earnings
 - vii. Increase in the standard of living of Nigeria
 - viii. Improve the technical skills of workers
 - ix. Increased output.

QUESTION 6

- a. What is money?
- b. Would you include all or any of the following under the heading of money? Give reason(s) for your answer
 - i. Cheques
 - ii. Postal orders
 - iii. Bank notes
 - iv. Coins
 - v. Bank deposits

Ans.

- a. Money is anything generally acceptable medium for making payment in a society.
- b.
 - i. Cheque: Cheque is the category of near money which are not widely acceptable as a means of payment.
 - ii. Postal orders: This is also near money.

- iii. Bank notes is a legal tender that is generally acceptable hence it is money. This is paper money. Bank notes are in higher denominations of N5, N10, N20, N100, e.t.c
- iv. Coins are also legal tender. They are in small denominations of 1k, 2k, 10k e.t.c
- v. Bank deposit: This is money in the current account of commercial banks. The money is withdrawable by cheque.

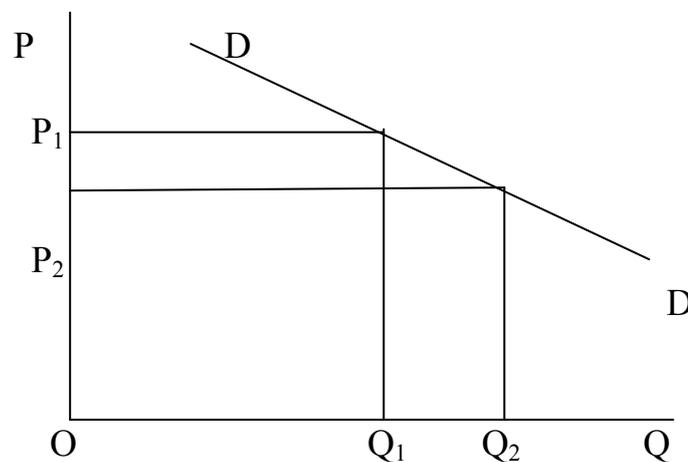
QUESTION 7

A demand curve slopes downward from left to right

- a. Discuss TWO reasons why this is the case
- b. Suggest THREE possible to this rule

Ans.

- a. The normal demand curve slopes downwards from left to right. This implies that greater quantity is demanded at a lower price and vice versa. The reason behind the inverse relationship between the price and the quantity demanded is traceable to
 - i. Income effect
 - ii. Substitution effect
 - iii. Law of diminishing marginal utility



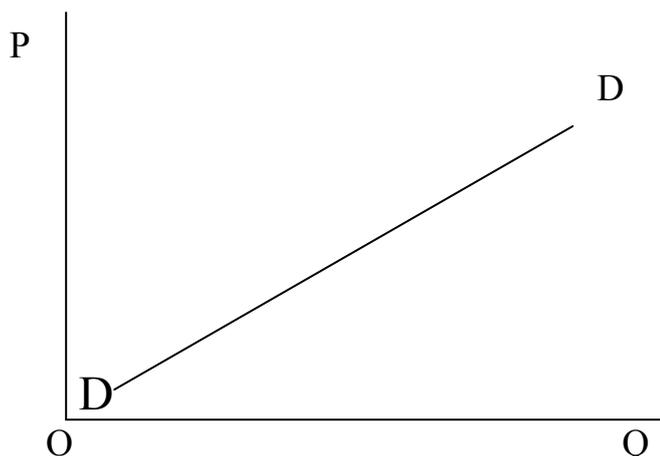
- i. Income effect: A decrease in the prices of a commodity increases the real income of the consumer. The consumer will now be able to purchase more quantities with the same amount of money. As the price falls from OP_1 to OP_2 quantity demanded increases from OQ_1 to OQ_2 .
- ii. The law of diminishing marginal utility. The consumer will purchase will purchase more if the marginal utility is greater than the price hence more quantity is purchased if the price

increases, the marginal utility is considered lower than the price. This makes the consumer to buy less quantity. The demand curve therefore slopes downward from left to right.

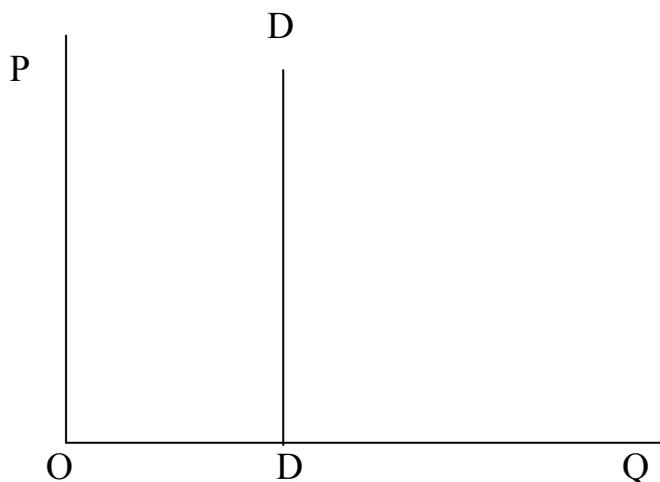
b. Exceptional Demand

When the consumer behaves contrary to the law of the higher the price the higher the quantity demanded. We have an exceptional demand curve. Examples of abnormal demand are:

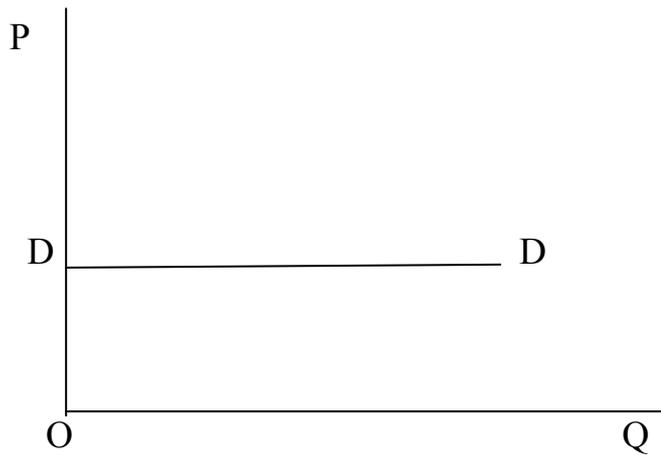
- i. The demand for luxuries: The slope of the demand curve is positive. Expensive cars is an example.
- ii. A fear of future rise in price leads to a positive slope. E.g. the demand for shares
- iii. A perfectly inelastic demand for salt
- iv. A perfectly demand when nothing is demanded with a very slight increase in the price
- v. A demand curve with double slope for inferior goods



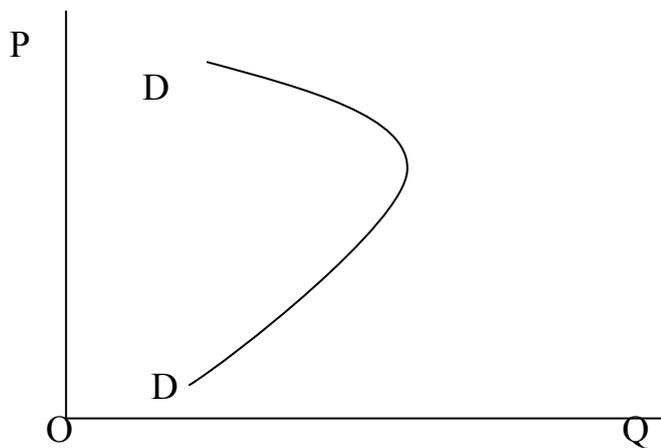
Positively sloped demand curve



Perfectly inelastic demand



Perfectly elastic demand



Double sloped demand

QUESTION 8

- a. What is a cooperative society?
- b. Discuss THREE types of cooperative societies that can be found in Nigeria

Ans.

- a. A cooperative society is a business organization composed of people who have pooled their resources so as to protect and promote their legal economic interest
- b. Types of cooperative societies
 - i. The consumers' cooperative society.
The consumer' cooperatives are made up of consumers. They buy essential goods in bulk at wholesale prices and sell to members and non members at retail prices. Members share the profits at the end of the year according to

patronage. Consumer's cooperatives are common among salary earners in Nigeria.

ii. The producer's cooperative society.

This is an association of the producers of a commodity that have come together for the purpose of either producing jointly or marketing jointly. Profits are shared at the end of the year according to patronage. Examples of producers cooperative are found among farmers in Nigeria.

iii. The credit and thrift cooperative society:

This is formed to inculcate saving habits among members. The society also facilitates borrowing by members. The credit and thrift cooperative are common among workers. Profits in form of dividends are shared among members at the end of the year according to patronage.

QUESTION 9

- a. What is money supply?
- b. Discuss FIVE instruments used by the Central Bank to control money supply.

Ans.

- a. Money supply is the total stock of coins, bank notes and bank deposits available for use in a country at a particular time.
- b. Instrument used by the Central Bank to control money supply includes
 - i. The bank discount rate
 - ii. Open market operation
 - iii. Liquidity ratio
 - iv. Special deposits
 - v. Directives
 - vi. Funding
 - vii. Moral suasion

QUESTION 10

- a. Explain the difference between terms of trade and balance of trade
- b. Describe THREE ways by which balance of payment deficit can be corrected.

Ans.

- a. Terms of trade is the rate at which a unit of exports of a country exchange for a unit of her import i.e.

$$\frac{\text{Index of average export price} \times 100}{\text{Index of average import price}} = 1$$

For example how many barrels of crude oil will exchange for a harvesters from Britain while Balance of trade is the relationship between the values of the visible export and the visible import of a country in a year.

- b. How to correct balance of payments deficit
- i. Borrowing from international financial/organizations or from friendly countries.
- ii. Embargo/ban on importation
- iii. Quotas
- iv. Tight foreign exchange control
- v. Selling foreign investments
- vi. Importing on credits
- vii. Devaluation of currency
- viii. Import licensing

QUESTION 11

- a. Outline five causes of inflation in Nigeria
- b. Suggest five possible solutions to the problem of inflation in Nigeria.

Ans.

- a.
 - i. Low productivity in the agricultural and industrial sector.
 - ii. Increased government deficit financing
 - iii. Rapid increase in salaries and wages
 - iv. Poor distribution system
 - v. Poor storage system
 - vi. Political instability/ civil war
 - vii. High cost of production.
- b. Suggested solutions to the problem of inflation in Nigeria.
 - i. Increased output
 - ii. Provision of effective storage facilities
 - iii. Reduced government expenditure/budget surplus
 - iv. Efficient distributive system
 - v. Subsidies to producers
 - vi. Population control measures
 - vii. Government price control measures

QUESTION 12

- a. Highlight FOUR objectives of ECOWAS
- b. Explain FOUR benefits which Nigeria has derived from her membership of the organisation.

Ans.

- a.
 - i. Elimination of tariffs on the imports and exports of member countries.
 - ii. Free movement of factors of production within the sub-region
 - iii. Elimination of administration bottlenecks and quantitative restrictions on trade in West Africa.
 - iv. Harmonization of agricultural, industrial, transport, communication, energy financial and other economic policies in West Africa.
 - v. Closing the income and economic development gaps among members/raising living standard
 - vi. Promotion of political stability
 - vi. Establishment of a common tariff and commercial policy towards non-members

- b. The benefits which Nigeria has derived from being a member of ECOWAS
 - i. Improved living standards through greater importation from other West Africa countries
 - ii. Employment opportunities for Nigerians
 - iii. Increased foreign investment
 - iv. Increase output of goods and services
 - v. Expansion in market for Nigerian goods.