

UNIVERSITY OF BOLTON
INSTITUTE OF MANAGEMENT
BA(HONS) ACCOUNTANCY
SEMESTER 2 EXAMINATIONS 2021/2022
PRINCIPLES OF ECONOMICS
MODULE NO: ACC4015

Date: Tuesday 17 May 2022

Time: 10.00 – 1.00pm

INSTRUCTIONS TO CANDIDATES:

Part 1 consists of 30 multiple choice questions and Part 2 essay questions

Answer all of the multiple-choice questions and choose any two essay questions to answer.

All of the essay questions carry equal marks.

Please write all your answers in the answer booklet only.

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Part 1

Multiple Choice questions: Answer all questions

Q1: Individuals and businesses must make choices because:

- a) They must act rationally
- b) Of resource scarcity
- c) Of the law of diminishing returns
- d) None of the above

Q2: Which of the following is not a factor of production as the term is used by economists?

- a) Farmland
- b) Cash in a bank account
- c) Buildings and machinery
- d) Labour

Q3: Which one of the following is a positive statement?

- a) Income inequality in the UK has increased over the last 30 years
- b) The rate of unemployment is too high
- c) The national minimum wage rate should be increased to £5 per hour
- d) Nurses working in the National Health Service should have a maximum working week of 50 hours per week

Q4: A possible advantage of a planned economy is that:

- a) Resources are allocated via the price mechanism
- b) There is greater consumer choice of products
- c) Identification with the state may be a better work incentive than the profit motive
- d) The state can better provide a range of goods for collective consumption

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Q5: Opportunity cost is best defined as:

- a) The cost of a choice measured by the cost of products bought
- b) The cost of a choice measured by the next best alternative forgone
- c) The cost of a choice measured by the time taken to consume
- d) The cost of buying an additional unit of a good or service

Q6: A student works for a book shop during the holidays. She is offered the alternative of being paid £100 per week in cash of choosing £150 worth of books from the shelves. What is the opportunity cost to the student of choosing the books?

- a) £50
- b) £150
- c) £100
- d) The alternative use to which her time could have been put

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Q7: The production possibility schedule for vans and lorries is as follows:

Vans	Lorries
16	0
15	1
14	2
13	3
11	4
9	5
7	6
0	7

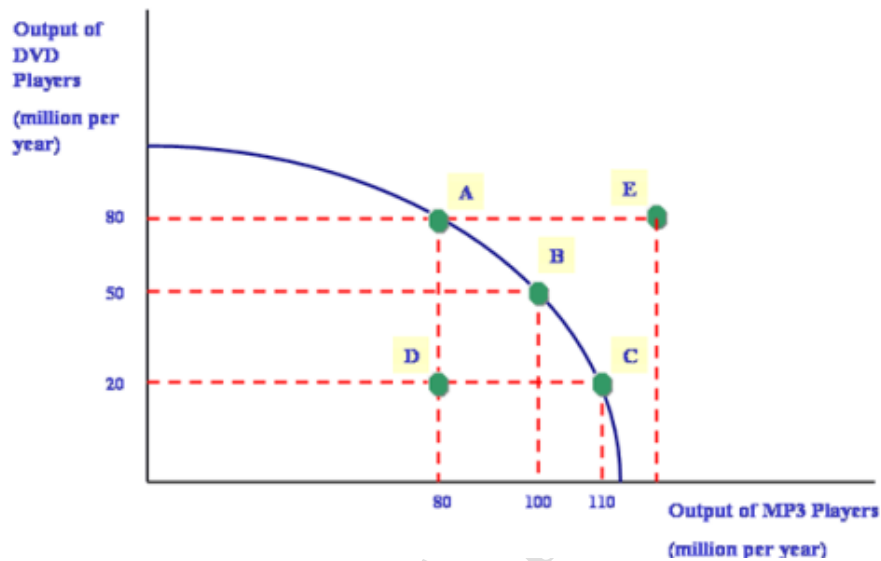
The opportunity cost of the second lorry in terms of vans is

- a) 1
- b) 2
- c) 7
- d) 14

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Q8:



Which combinations of output of DVD players and MP3 players are feasible given the PPF that a country faces above?

- a) A, B and C
- b) A, B, C and D
- c) E only
- d) A, B, C, D and E

Q9: True or False: In a market economy, prices provide incentives to help the economy use scarce resources efficiently

- a) True
- b) False

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Q10: True or False: As price falls, quantity demanded for a normal good will fall

- a) True
- b) False

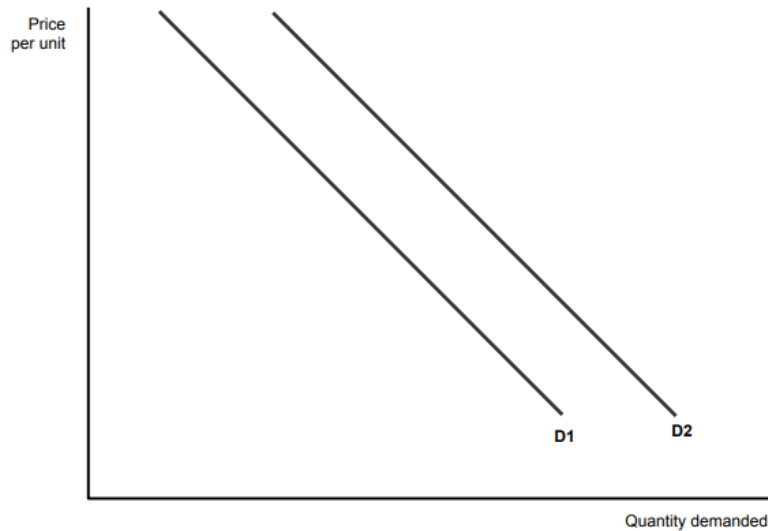
Q11: True or False: A change in consumers' income will normally cause a shift in the demand Curve

- a) True
- b) False

Q12: In a free market economy, market prices

- a) Reflect the relative scarcity of the product
- b) Communicate information to producers about how much to supply
- c) Provide incentives for consumers about how much to purchase
- d) All of the above

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Q13:



The shift of the demand curve from D1 to D2 in the diagram above could have been caused by

- a) An increase in the price of the good itself
- b) A decrease in the price of the good itself
- c) A fall in interest rates
- d) A fall in real incomes of consumers if the good is a normal good

Q14: The phrase 'ceteris paribus' means

- a) A change in one factor affects another
- b) Both factors moving in the same direction
- c) No change in any economic factor
- d) All other factors are held constant

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Q15: As consumers have become more concerned about the amount of saturated fat in their diet, the demand for chicken has increased whilst the demand for beef has fallen. The result of this is likely to be

- a) An increase in the quantity supplied of beef
- b) A rise in the market price of beef
- c) A decrease in the quantity supplied of chicken
- d) A rise in the market price of chicken

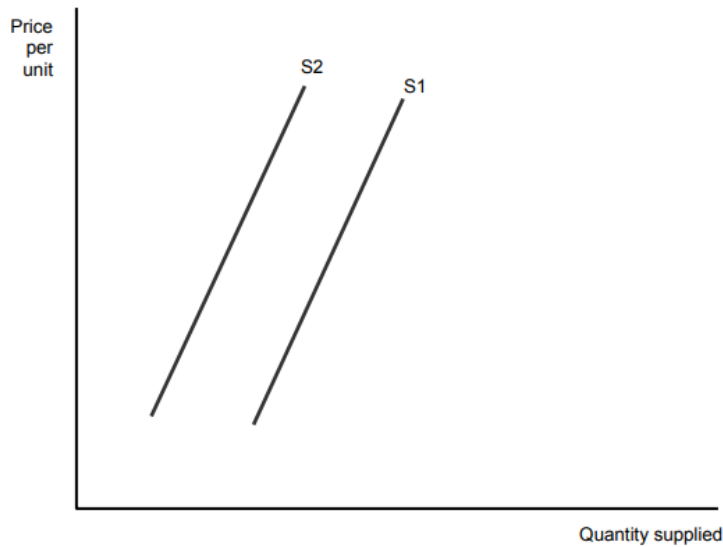
Q16: The market demand curve for overseas holiday cruises will NOT shift when there is a

- a) Rise in consumers real incomes
- b) Successful advertising campaign
- c) Fall in the price of a cruise in the brochures
- d) Increase in the price of land-based holidays (a substitute for cruises)

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Q17:



The change in supply curve of the product from S1 to S2 shown in the diagram above could have been due to

- a) An improvement in production technology
- b) A fall in the exchange rate causing a rise prices of imported components
- c) A government subsidy to producers
- d) An increase in the real incomes of consumers

Q18: True or False: The price elasticity of demand is greater for goods that have several rather than fewer close substitutes

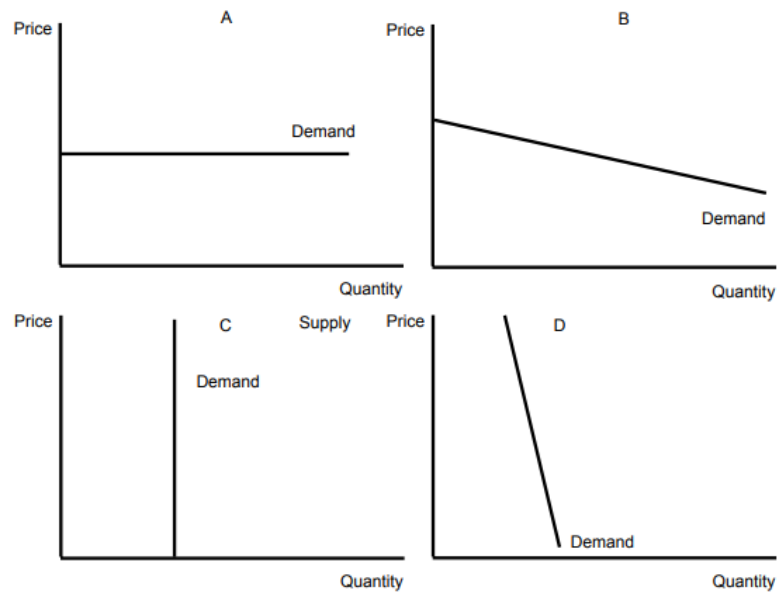
- a) True
- b) False

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Q19: Suppose that price of Good X rises by 30 per cent and demand for Good X falls by 10 percent. Elasticity of demand is

- a) -3
- b) -30
- c) -0.33
- d) -1.33

Q20: Which one of the diagrams above, A, B, C or D shows a demand curve that is perfectly inelastic?



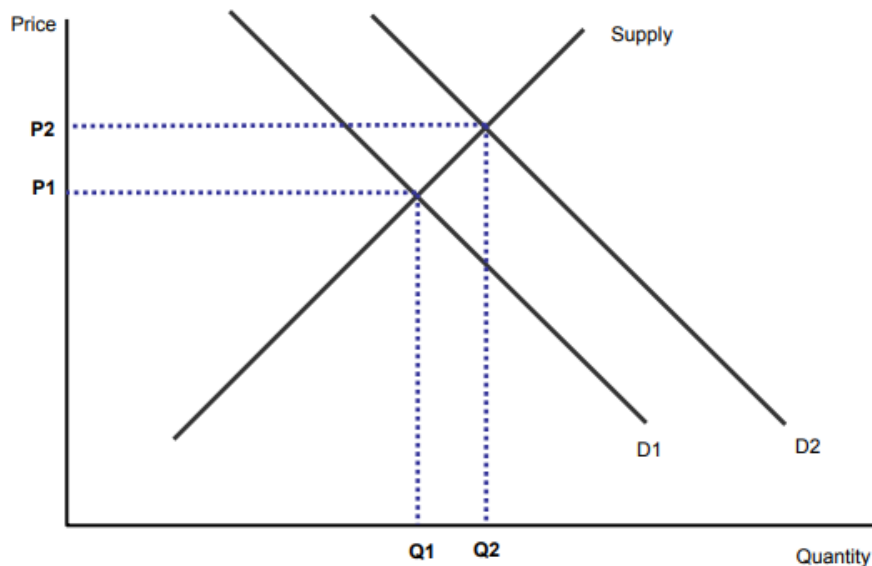
- a) A
- b) B
- c) C
- d) D

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Q21: True or False: If two products are complements, the cross-price elasticity of demand is likely to be positive

- a) True
- b) False

Q22:

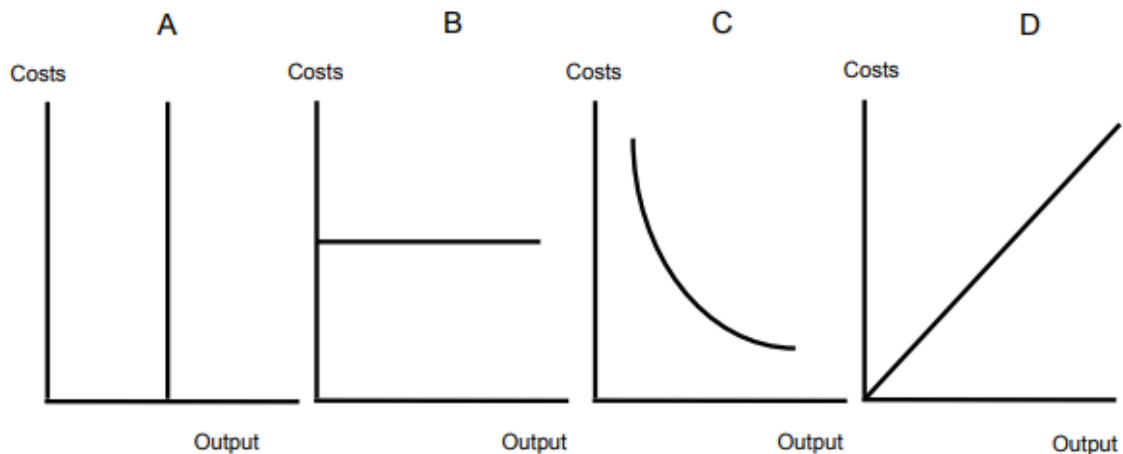


The change in demand shown in the diagram above might have been caused by

- a) A fall in the costs of production
- b) The introduction of a government subsidy for producers
- c) A fall in income for a normal good
- d) An increase in the price of a substitute good

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Q23: Which diagram below shows the relationship between total fixed costs and its level of output in the short run?



- a) A
- b) B
- c) C
- d) D

Q24: True or False: A farmer tips chemical waste into a river because he can do so at no cost to themselves is an example of a positive externality

- a) True
- b) False

Q25: Which one of the following is a characteristic of a merit good?

- a) Once the good has been supplied to one consumer, there is no extra cost in supplying it to others
- b) It is always provided free of charge to low-income consumers
- c) It may not be provided by the market in sufficient quantities
- d) It tends to be provided by the government because of the problem of non-excludability

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Q26: A natural monopoly is most likely to exist when

- a) There are long term patents
- b) There are large barriers to entry
- c) There is government regulation of the industry
- d) There are large economies of scale

Q27: Which of the following is an example of government intervention to correct a market failure?

- a) An increase in nurses' salaries
- b) An increase in the rate of VAT on all goods and services
- c) The taxation of goods with negative externalities
- d) The taxation of pure public goods

Q28: True or False: The official measure of Gross Domestic Product understates the true level of national income because of the existence of the "shadow" or informal economy

- a) True
- b) False

Q29: The money value of goods and services produced in a year within the geographical boundaries of a country is known as

- a) Gross National Product
- b) The Balance of Payments
- c) Gross Domestic Product
- d) The Consumer Price Index

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Q30: The government is concerned that, without any change to its current economic policy, the rate of growth of the economy will fall below the trend rate. Which of the following policy changes is most likely to prevent this from happening?

- a) An increase in interest rates
- b) A reduction in the level of unemployment benefits
- c) An increase in government capital spending
- d) A reduction in the target for the rate of inflation

**Total 30 Marks
(1 Mark Each)**

END OF PART 1

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Part 2

Answer any TWO questions from this section

(You are encouraged to use diagrams where appropriate)

Question 1: International Trade

A) Explain the term 'Natural Advantage'.

(10 marks)

B) Explain the term 'Comparative Advantage'

(10 marks)

C) Discuss the statement 'Increased Free Trade has created opportunity and increased living standards across the globe since 1945'.

(15 marks)

Total 35 marks

Question 2: The Business Cycle

A) Explain the term 'the Business Cycle'.

(10 marks)

B) What problems are caused by the Business Cycle?

(10 marks)

C) Discuss the measures that a government might take to manage the Business Cycle.

(15 marks)

Total 35 marks

Question 3: The EU

A) What is the European Union?

(10 marks)

B) What was the rationale of the E.U.'s founding members?

(10 Marks)

C) Discuss the arguments made in favour and against E.U membership.

(15 marks)

Total 35 marks

Question 4: Inflation and Unemployment.

A) Explain the terms 'Inflation' and 'Unemployment'.

(10 marks)

B) Why is inflation a problem for society?

(10 marks)

C) Discuss the phrase 'All unemployment is voluntary'.

(15 marks)

Total 35 marks

END OF QUESTIONS