

UNIVERSITY OF BOLTON

GREATER MANCHESTER BUSINESS SCHOOL

BA (HONS) ACCOUNTANCY

SEMESTER TWO EXAMINATIONS 2023/2024

PRINCIPLES OF ECONOMICS

MODULE NO: ACC4015

Date: Tuesday 14th May 2024

Time: 10.00am – 12.00pm

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.

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Part 1- Multiple Choice questions

Write your correct option in the answer booklet

Q1. If you bought a hat instead of a scarf, what is the opportunity cost?

- a) The money you paid for the hat.
- b) What you would have spent on the scarf, if you had not bought the hat.
- c) The cost of producing the hat.
- d) The time you spent comparing the two.

Q2. The law of supply states that an increase in the price of a good

- a) decreases the quantity demanded for that good
- b) increases the quantity supplied of that good
- c) decreases the quantity supplied of that good
- d) Increases the quantity demanded for that good

Q3. Which of the following is not a factor of production as the term is used by economists?

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

Q4. Individuals and businesses must make choices because:

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

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Q5. If an increase in the price of electricity leads to a decrease in the demand for electric clothes driers, then electricity and electric clothes driers are:

- a) substitutes
- b) complements
- c) Opposites
- d) Imperfect substitutes

Q6. True or False: In a market economy, prices provide incentives to help the economy allocate scarce resources efficiently.

- a) True
- b) False

Q7. The money value of goods and services produced in a year within the geographical boundaries of a country is known as

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

Q8. People want to consume more goods and services than they currently consume.

However, their consumption choices are limited by

- a) the person's income and the prices of goods.
- b) the marginal rate of substitution of the next unit.
- c) the person's preferences for goods and services.
- d) only prices and the person's preferences.

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Q9. 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 successfully drive forward massive projects.

Q10. Which of the following could be described as an agent in the principal agent problem?

- a) Shareholders
- b) Manager
- c) Employers
- d) HR department

Q11. True or False: As price falls, quantity demanded for a normal good will fall

- a) True
- b) False

Q12: Suppose that a firm produces 1,000,000 units a year and sells them all for £1 each. The explicit costs of production are £400,000 and the implicit costs of production are £300,000. The firm has an accounting profit of:

- a) £600,000 and an economic profit of £300,000
- b) £700,000 and an economic profit of £600,000.
- c) £300,000 and an economic profit of £300,000.
- d) £600,000 and an economic profit of £700,000.

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Q13. 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

Q14. Variable costs are:

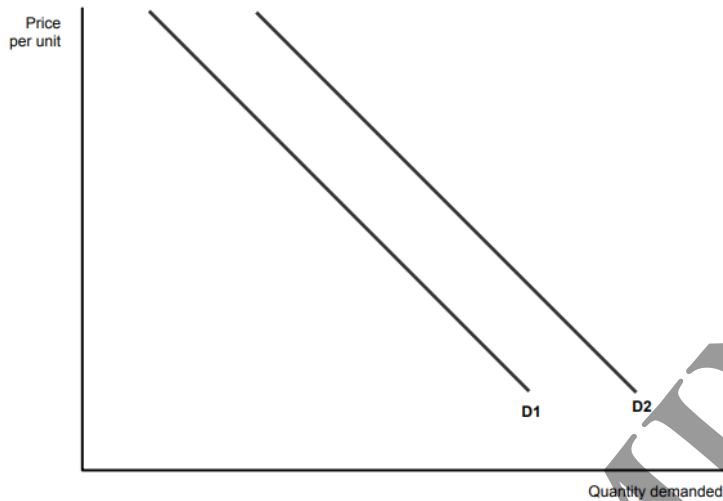
- a) Sunk costs.
- b) Costs that change with the level of production
- c) Defined as the change in total cost resulting from the production of an additional unit of output.
- d) Multiplied by fixed costs.

Q15. True or False: A change in consumers' income will normally cause a shift in the demand Curve

- a) True
- b) False

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Q16.



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

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

Q17. True or False: The bank of England has operational independence:

- a) True
- b) False

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Q18. 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) A decrease in the quantity supplied of chicken
- b) A rise in the market price of beef
- c) A rise in the market price of chicken
- d) An increase in the quantity supplied of beef

Q19. Which trade theory holds that nations can increase their economic well-being by specialising in the production of goods they produce more efficiently than anyone else?

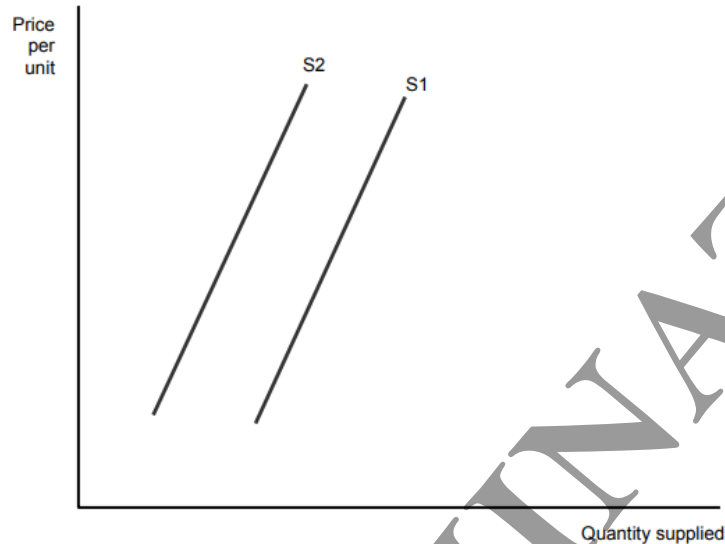
- a) The international product life cycle theory.
- b) The theory of comparative advantage.
- c) The factor endowment theory.
- d) The theory of absolute advantage.

Q20. The market demand curve for overseas holiday cruises will NOT shift when there is a:

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

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Q21.



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

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

Q22. All other factors held constant a decrease in market demand for new cars will lead to

- a) Decreased price and decreased quantity
- b) Increased price and decreased quantity
- c) Increased price and increased quantity
- d) Decreased price and no change in quantity

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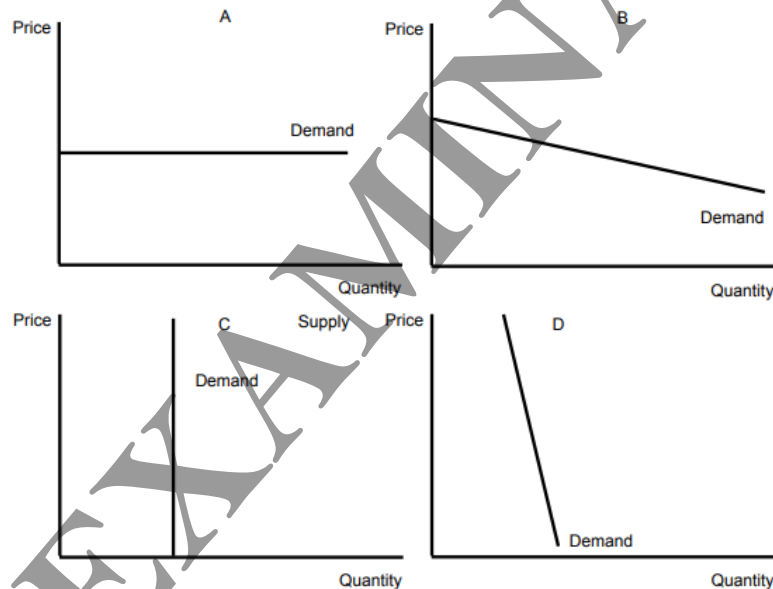
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Q23. True or False: The price elasticity of demand is greater for goods that have several rather than fewer close substitutes

- a) True
- b) False

Q24. Which one of the diagrams below, A, B, C or D shows a demand curve that is perfectly elastic?

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



Q25. Opportunity cost is best defined as:

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

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Q26. 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?

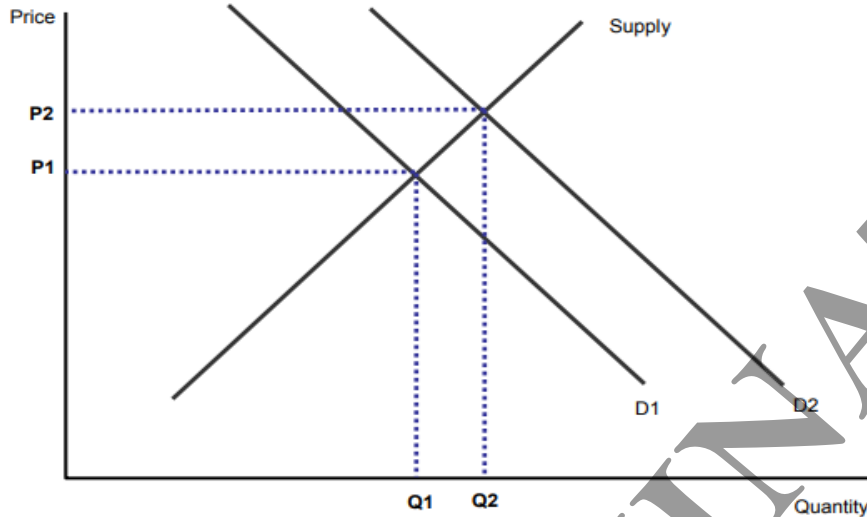
- a) A reduction in the level of unemployment benefits
- b) An increase in interest rates
- c) An increase in government capital spending
- d) A reduction in the target for the rate of inflation

Q27. 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

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Q28:



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

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

Q29. Which one of the following is a major macroeconomic objective of the government?

- a) Sustained economic growth
- b) Low and stable inflation
- c) High levels of employment
- d) All of the above

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Q30. Real GDP is not a good indicator of economic welfare because it

- a) Excludes the value of income and spending in the shadow or "black" economy
- b) Does not make an adjustment for the external costs and benefits created by externalities
- c) Measures the value of time spent working in producing goods and services but not the value of leisure time
- d) All of the above

(1 Mark each, total 30 Marks)

END OF PART 1

PART 2 BEGINS OVER THE PAGE

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Part 2 -Answer any TWO questions from this section

(You are encouraged to use diagrams where appropriate)

Question 1: Monitoring Jobs

- A) Define the term 'Economic Activity Rate' (7 marks)
- B) Why is Unemployment a problem and what can the UK government do to combat high unemployment rate? (13 marks)
- C) Discuss the various types of Unemployment? (15 marks)

Total 35 marks

Question 2: Globalisation

- A) What does the term 'Globalisation' mean? (10 marks)
- B) Discuss the development of 'international trade' and how it has transformed? (12 marks)
- C) What can the UK government do to improve its trade relations? (13 marks)

Total 35 marks

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Question 3: Market Structure

A) Define the term "Market Structure"

(10 marks)

B) Discuss the differences between Perfect Competition and Oligopoly and explain their characteristics.

(12 Marks)

C) What is price discrimination, what are the advantages and disadvantages of price discrimination?

(13 marks)

Total 35 marks

Question 4: Gross Domestic Product (GDP)

A) What does the term 'Gross Domestic Product' mean?

(7 marks)

B) What is the Circular Flow of Expenditure and Income (CFEI), illustrate and explain 3 of the 6 components of CFEI?

(10 marks)

C) Discuss the uses of GDP and explain the difference between Real and Nominal GDP.

(8 marks)

D) Examine the limitations of Real GDP and options that a government can employ to mitigate these limitations.

(10 marks)

Total 35 marks

END OF QUESTIONS

END OF EXAM PAPER