

UNIVERSITY OF GREATER MANCHESTER

OFF CAMPUS DIVISION

WESTERN INTERNATIONAL COLLEGE

BA (HONS) ACCOUNTANCY

SEMESTER TWO EXAMINATION 2024/2025

PRINCIPLES OF ECONOMICS

MODULE NO: ACC4015

Date: Monday, 12 May 2025

Time: 1:00 pm – 3:00 pm

INSTRUCTIONS TO CANDIDATES:

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

Answer ALL of the multiple choice questions and choose ANY TWO (2) essay questions to answer.

All of the essay questions carry equal marks.

University of Greater Manchester
Off Campus Division – Western International College
BA (Hons) Accountancy
Semester Two Examination 2024/2025
Principles of Economics
Module No: ACC4015

PART 1 - MULTIPLE CHOICE QUESTIONS

Write your correct option in the answer booklet

Q1. An increase in capital investment spending can lead to higher levels of productivity and growth as workers have more capital to work with in their jobs.

- a) True
- b) False

Q2. 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.

Q3. Which one of the following is most likely to cause a recession?

- a) Rising business confidence
- b) A falling exchange rate
- c) Rising interest rates and a fall in business confidence
- d) A fall in US government spending

Q4. 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

Please turn the page

University of Greater Manchester
Off Campus Division – Western International College
BA (Hons) Accountancy
Semester Two Examination 2024/2025
Principles of Economics
Module No: ACC4015

Q5. A government wishing to reduce the level of unemployment through the use of fiscal policy would be most likely to

- a) Lower interest rates to stimulate private sector investment
- b) Remove all controls on consumer credit and bank lending
- c) Increase the size of the budget deficit
- d) Encourage a depreciation of the exchange rate

Q6. 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

Q7. 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

Q8. Which one of the following types of unemployment would be associated with a decline in employment in the pharmaceuticals industry due to a global economic slowdown?

- a) Structural unemployment
- b) Cyclical unemployment
- c) Frictional unemployment
- d) Seasonal unemployment

Please turn the page

University of Greater Manchester
Off Campus Division – Western International College
BA (Hons) Accountancy
Semester Two Examination 2024/2025
Principles of Economics
Module No: ACC4015

Q9. 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

Q10. True or False: In a market economy, prices provide incentives to help the economy allocate scarce resources efficiently.

- a) True
- b) False

Q11. When there is a rise in real income, what effect will this have on the demand curve for an inferior good?

- a) Shift to the left causing a fall in market price
- b) Shift to the right causing an increase in market price
- c) Shift to the left causing a rise in market price
- d) Shift to the right causing an inward shift of the market supply curve

Q12. 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

Please turn the page

University of Greater Manchester
Off Campus Division – Western International College
BA (Hons) Accountancy
Semester Two Examination 2024/2025
Principles of Economics
Module No: ACC4015

Q13. 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.

Q14. When average cost per unit declines as a result of a merger or integration of two businesses that are not producing the same type of product, the new firm experiences

- a) Economies of scale
- b) Economies of scope
- c) Economies of hope
- d) Economies of expectation

Q15. 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.

Q16. Which of the following could be described as an agent in the principal agent problem?

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

Please turn the page

University of Greater Manchester
Off Campus Division – Western International College
BA (Hons) Accountancy
Semester Two Examination 2024/2025
Principles of Economics
Module No: ACC4015

Q17. True or False: As price falls, quantity demanded for a normal good will fall.

- a) True
- b) False

Q18: 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.

Q19. Which one of the following is classified as a fixed cost?

- a) Royalties paid by a radio station to a recording company every time it plays one of its records
- b) Costs of raw materials and components paid by a manufacturer of children's toys
- c) Interest charges paid by an airline company on a bank loan to buy a new fleet of aircraft
- d) The cost of materials used in the production of double-glazing

Q20. 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

Please turn the page

University of Greater Manchester
Off Campus Division – Western International College
BA (Hons) Accountancy
Semester Two Examination 2024/2025
Principles of Economics
Module No: ACC4015

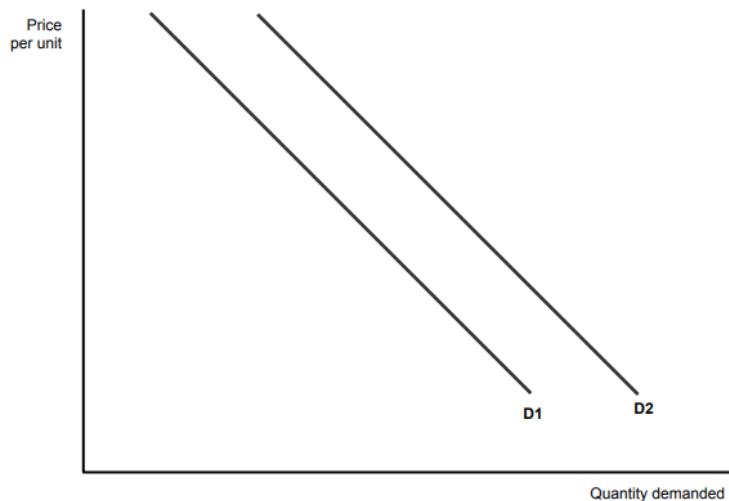
Q21. Variable costs are:

- 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.

Q22. True or False: A change in consumers' income will normally cause a shift in the demand Curve.

- a) True
- b) False

Q23.



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

Please turn the page

University of Greater Manchester
Off Campus Division – Western International College
BA (Hons) Accountancy
Semester Two Examination 2024/2025
Principles of Economics
Module No: ACC4015

Q24. If a producer's long-run average cost rises as its scale of operations increases, the producer is experiencing

- a) Diminishing returns
- b) Diseconomies of scale
- c) Economies of scale
- d) Falling profits

Q25. True or False: The bank of England has operational independence.

- a) True
- b) False

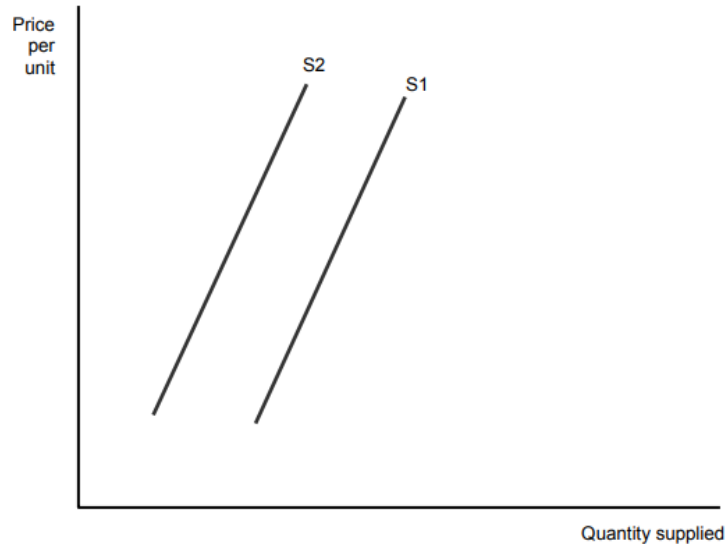
Q26. As consumers have become more concerned about the amount of saturated fat in their diet, the demand for chicken has increased whilst the demand for beef has fallen. The result of this is likely to be:

- 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

Please turn the page

University of Greater Manchester
Off Campus Division – Western International College
BA (Hons) Accountancy
Semester Two Examination 2024/2025
Principles of Economics
Module No: ACC4015

Q27.



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

Q28. 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

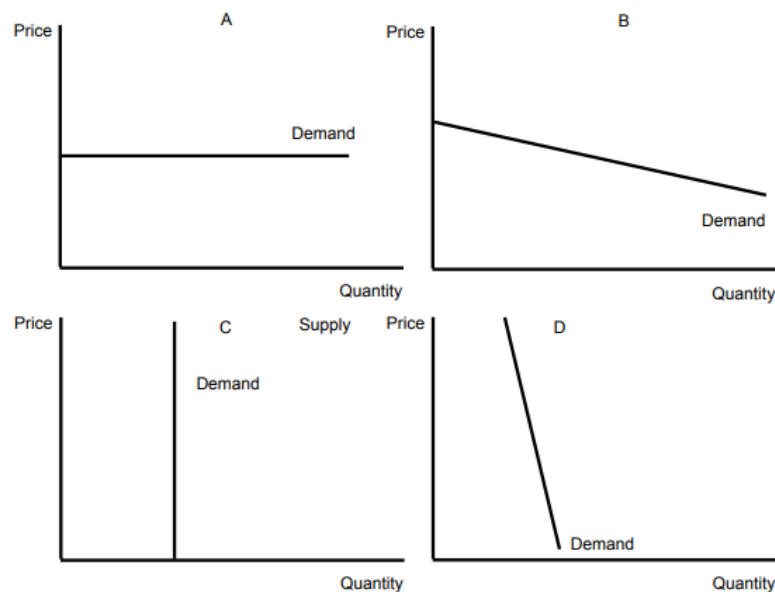
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University of Greater Manchester
Off Campus Division – Western International College
BA (Hons) Accountancy
Semester Two Examination 2024/2025
Principles of Economics
Module No: ACC4015

Q29. An argument for the government providing merit goods such as state education and the National Health Service free of charge to consumers is that

- a) They are unlikely to be provided at all by the private sector
- b) The consumption of merit goods results in negative externalities
- c) Merit goods are both non-excludable and non-rival
- d) It is considered unacceptable that people on lower incomes may be unable to afford them

Q30. 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

(1 mark per question)
[TOTAL 30 MARKS]

Please turn the page

University of Greater Manchester
Off Campus Division – Western International College
BA (Hons) Accountancy
Semester Two Examination 2024/2025
Principles of Economics
Module No: ACC4015

PART 2 - ANSWER ANY TWO QUESTIONS FROM THIS SECTION

(You are encouraged to use diagrams where appropriate)

Question 1: Fiscal and Monetary Policy

- A) What is the difference between fiscal policy and monetary policy? **(7 marks)**
- B) What are the key criticisms and limitations of monetary policy? **(13 marks)**
- C) Discuss the various types of budget deficits and their benefits? **(15 marks)**

[TOTAL 35 MARKS]

Question 2: 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]

Question 3: Market Structure

- A) Define the term "Market Structure" **(10 marks)**
- B) Discuss the differences between Monopolistic 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]

END OF QUESTIONS