ECONOMICS 2005 MAY/JUNE

QUESTION 1.

(a) The table below shows the weekly data of a house wife's expenditure on food items in the house

Items	Expenditure
Garri	N400.00
Rice	N900.00
Yam	N1200.00
Meat	N700.00
Vegetable	N300.00
Bread and Milk	N500.00

Illustrate the data accurately with Pie Chart. Show your workings clearly.

(b) What is price elasticity of demand?

(c) If at N80.00 per tuber of yam, twenty tubers of yam were demanded, and when the price fell to N60.00 per tuber, thirty tubers were demanded, what is the elasticity of demand?

Ans: (a) total weekly expenditure

N400 + N900 + N1200 + N700 + N300 + N500 = N4,000.00

The proportion of each item of expenditure in degrees

Garri: $\frac{400}{4000} \times \frac{360}{1} = 36^0$

Rice: $\frac{900}{4000} \times \frac{360}{1} = 81^0$

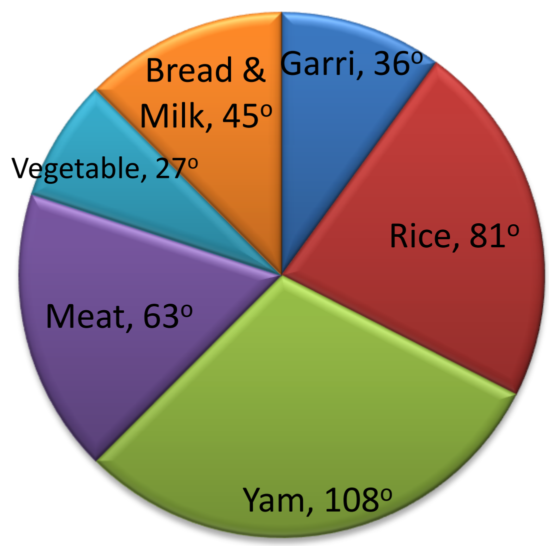
Yam: $\frac{1200}{4000} \times \frac{360}{1} = 108^0$

Meat: $\frac{700}{4000} \times \frac{360}{1} = 63^0$

Vegetable: $\frac{300}{4000} \times \frac{360}{1} = 27^0$

Bread & Milk: $\frac{500}{4000} \times \frac{360}{1} = 45^0$

PIE CHART



(b) Price elasticity of demand is the degree of responsiveness of quantity demanded to a slight change in the price of a commodity.

P	Qd
N80	20
N60	30

$$Ed = \frac{\text{\% change in quantity demanded}}{\text{\% change in price}}$$

% change in quantity demanded

$$\frac{30 - 20}{20} \times \frac{100}{1}$$

$$= \frac{10}{20} \times \frac{100}{1} = 50\%$$

% change in price

$\frac{60-80}{80} \times \frac{100}{1}$ or $\frac{80-60}{80} \times \frac{100}{1}$

$\frac{20}{80} \times \frac{100}{1}$ 25%

Elasticity of demand $= \frac{50}{25} = 2$

OR

$\frac{dq}{q1} + \frac{dp}{p1}$

$= \frac{dq}{q1} \times \frac{p1}{dp}$

$= \frac{10}{20} \times \frac{80}{20}$ =2

QUESTION 2

(a) Explain the law of diminishing return.
(b) Explain the law of diminishing return.
(c) Copy and complete the following table:

Quantity	Total Fixed Cost (TFC) N	Total variable cost (TVC) N	Total (TC) N	Average fixed cost (AFC) N	Average variable cost (AVC) N	Marginal cost (MC) N
1	250			250	500	–
2	250	280		125		-220
3	250	65	900		216.67	
4	250		1050	62.50		150
5	250			50		450

Use the above table to draw a graph showing the fixed and variable cost curves

Answer

2.(a) If we increase the input of one variable resource while the input of other resources are held constant, total output will increase at first but after a point, the increase in total output will increasingly become smaller.

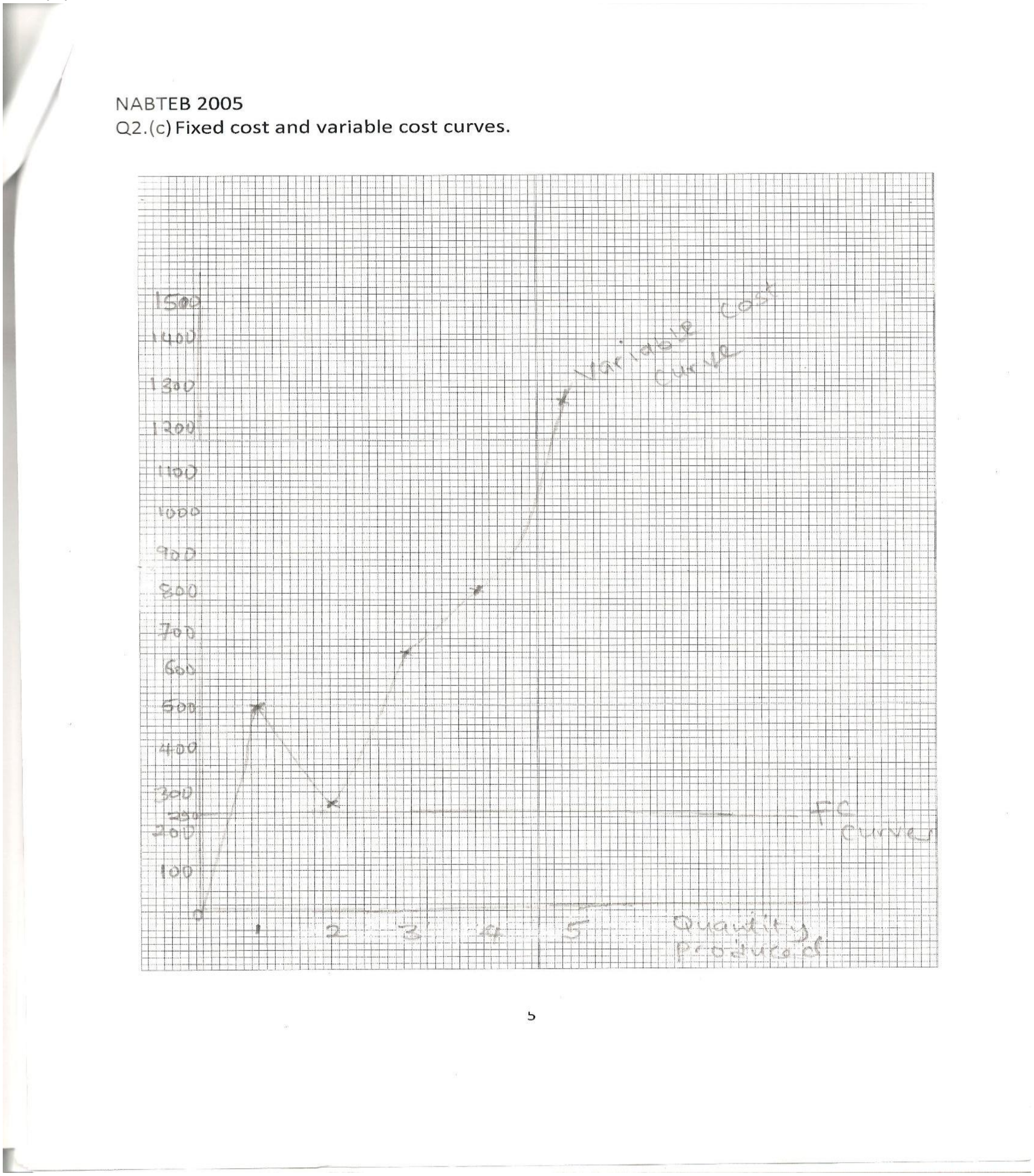
2. (b)

Quality	Total Fixed Cost (TFC) N	Total variable cost (TVC) N	Total (TC) N	Average fixed cost (AFC) N	Average variable cost (AVC) N	Marginal cost (MC) N
1	250	500	750	250	500	–
2	250	280	530	125	140	-220
3	250	650	900	83.33	216.67	370
4	250	800	1050	62.50	200	150
5	250	1250	1,500	50	250	450

The Graph

NABTEB 2005

Q2.(c) Fixed cost and variable cost curves.



QUESTION 3.

(a) What is Economics?

(b) In what ways is the study of Economics useful to mankind?

Ans: (a) Renowned authorities such as Adam Smith, J.S Mill, Alfred Marshall among others had defined Economics in different ways.

The most widely acceptable definition of Economics is that of Professor Robbins stated below:

Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.

(b) The advantages derivable from the study of Economics include the following:

(i) The study of Economics enables individuals to understand the basic economic Concepts and problems thereby helping to take rational economic decisions such as production, consumption, distribution and exchange.

(ii) The study of economics develops the power of critical thinking in the individual.

(iii) Economics enables an individual to understand current economic issue and inculcated the sense of economic analysis in the learner.

(iv) The study of Economics enables people to choose a career.

(v) Economics empowers an individual to contribute his own quota towards the economic development of the society.

QUESTION 4 (a) Describe the main types of public Expenditure

(b) Give the reasons that may account for an increased government expenditure in your country.

Ans: (a) Public expenditure can be classified into two headings namely, Recurrent expenditure and Capital expenditure.

Recurrent Expenditure: These are the expenses on running costs which are repeated every year. Expenses on payment of wages and salaries, maintenance of infrastructure, payments of rents and interest are examples of recurrent expenditure.

Capital Expenditure: are expenses on projects of permanent nature. These expenses do not recur every year. Examples of capital expenditure include building of schools, hospitals, roads, dams, electrification projects, procuring new machineries, aircrafts and construction of airports.

(b) Government expenditure in Nigeria had been increasing year in year out for the following reasons.

(i) Population growth: the need to provide more social amenities such as schools, hospitals, electricity, and roads for the rapid increasing population had led to increase in government expenditure.
(ii) Expansion of the administrative machinery of the country: The increasing number of civil servants to be catered for and the adoption of the presidential system of government in Nigeria have led to large increase in the cost of administration.
(iii) Defence and national security: The urge to put in place a strong, efficient and well equipped security machinery against external aggression had increased expenses on the Army, Navy, and Air force.
(iv) Economic Development: The need to pursue developmental projects on agriculture, industrialisation, provision of amenities like roads, electricity, hospitals, educational facilities have led to huge increase in government expenditure.
(v) Maintenance of internal law and order: Government expenses on police force customs, immigration, prisons and the law courts have been increased
So as to enforce laws and maintain peace.
(vi) Rapid increase in prices: the rate of inflation in Nigeria have been astronomical hence rapid increase in government expenditure on projects.
(vii) Expenses to meet international obligations such as aids, grants and loans repayments to other countries have been increasing.

QUESTION 5.

Compare and contrast the private limited company with the public limited company.

Ans: The private limited company and the public limited company are similar in certain aspects while they are different in some others.

SIMILARITIES

1. LEGAL ENTITY: The private limited company and the public limited company both have a separate legal entity.
2. LIMITED LIABILITY: The liability of the shareholders is limited to the amount of capital invested.
3. CONTINUITY: In both companies, continuity of the company is guaranteed for the death of a shareholder does not put an end to the existence of the company.
4. MANAGEMENT: The management of the companies is vested with the board of Directors or manager.
5. RAISING OF CAPITAL: Both private and public limited liability companies can raise capital through loans and shares.

DIFFERENCES

I. MINIMUM NUMBER OF OWNERS: The minimum number of owners in a public limited liability company is 7 while it is 2 in a private limited company.

II. MAXIMUM NUMBER OF OWNERS: in a private company, the maximum number of owners is 50 while there is no upper limit for the public company.

III. ABILITY TO SELL SHARES: Whereas the public company can sell shares to the general public. The private company sells shares to the 50 owners only.

IV. TRANSFERABILITY OF SHARES: Shareholders in public company are free to transfer their shares from hand to hand while this is not so in a private company.

V. PUBLICATION OF ACCOUNTS: The public company must publicize its accounts annually but the private company is not required to do so.

VI. ISSUE OF DEBENTURES: While the public company can issue debentures the private company cannot issue debentures.

VII. COMMNCEMENT OF BUSINESS: The private limited liability company can start operation in full after securing the certificate of incorporation, the public company cannot operate until the certificate of trading had been secured.

QUESTION 6.

(a) Explain the term under population

(b) Highlight the economic effects of high population density in Nigeria.

Ans: (a) Under population is a situation where the people within the country are insufficient to fully utilize the available resources given the existing technology.

OR

Under population is that size of the population that is below the optimum. There is under population if an increase in size leads to increase in output per head.

(b) Economic effects of high population density in Nigeria

(i) Pressure on land: High population density will make the demand for land for economy activities to outstrip the supply.

(ii) Lower living standard: There is rapid increased in the demand for goods and services in areas of high population density hence rapid increase in prices, shortage of goods and services culminating in lower living standards.

(iii) Increased expenses on social amenities: The demand for social amenities such as schools, roads, water supply, electricity etc increases in areas of high population density. This increase government expenditure on these facilities.

(iv) Increase in crime wave: High population density may breed crimes like armed robbery, advance fee fraud, prostitution etc.

(v) Unemployment problems: Areas of high population density in Nigeria are associated with high rate of unemployment.

(vi) Increased supply of labour force: High population density provides adequate supply of labour.

(vii) Higher rate of investment: Areas of high population density in Nigeria attract investors since these areas are potential market centres.

(viii) Increased health hazards: Areas of high population density are associated with overcrowding, air and water pollution, wastes disposal problems etc. All these impair health.

(ix) Balance of payments problems: High population density may force the country to import more goods and services which may lead to deficit on the balance of payment.

QUESTION 7.

(a) What are the factors affecting the location of industry?

(b) Explain FIVE roles of industrialization in the economic development of Nigeria.

Ans. (a) The entrepreneur must consider certain locational factors with the overall interest of reducing unit cost of production.

Such factors include:

(i) Source of raw materials: if the raw material is heavy and its cost of transportation is very high, the entrepreneur may decide to locate his business near the source of raw materials. Example are cement factories and plywood factories.

(ii) Market Consideration: The ultimate aim of the producer is to sell the final product. A business unit may be sited in areas with high population densities. If the product is fragile, perishable or bulky to transport, the business unit may be located near the market. Examples are production of eggs, fresh milk and bricks.

(iii) Nearness to the source of power supply: Power supply is an essential ingredient to production. The producer may locate his business near the source of power be it coal, electricity or water.

(iv) Labour supply: for labour intensive form of businesses, adequate supply of labour will be considered for location.

(v) Availability of good transport and communication system. An efficient transportation system is needed to transport raw materials and finished products. Also, a business unit needs an efficient communication system such as telephones and post offices. These may encourage the producer to site the business in places where these facilities are available.

(vi) Favourable natural conditions such as suitable climate and land may determine where one form of agricultural activity or the other will be sited.

(vii) Political factors apart from economic factors may determine location of industries.

(viii) The presence of amenities such as banks, insurance companies, educational institutions, pipe borne water may attract producers to such areas.

(b) Industrialization In Nigeria plays major roles towards economic development.

Such roles include the following:

(i) Economic growth: Industrialization increase the Gross National product hence economic growth is guaranteed.
(ii) Reduction in the rate of unemployment: Industrialization creates employment opportunities to many unemployed Nigerians thus helping to reduce the rate of unemployment.
(iii) Industrialization increases the standard of living of the people by making greater quantities and varieties of goods and services available.
(iv) Diversification of the economy: industrialization in Nigeria removes over-dependence on agriculture.
(v) Industrialization provides more foreign exchange earnings through exports.
(vi) Reduction in the inflation rate through the flooding of the market with more manufactured products.
(vii) Industrialization helps to correct deficit balance of payment in Nigeria.
(viii) Industrialization will expand the market for agricultural raw materials hence higher earnings for farmers.
(ix) Improvement in farming techniques: the industrial sector produces modern and more efficient machineries for agriculture such as ploughs, harvesters, silos etc. The sector produces fertilizers, herbicides and insecticides for the agricultural sector.
(x) Increase in government revenue: The manufacturing companies will pay taxes in form of royalties, excise duties or profit tax to the government thereby increasing government revenue.
(xi) Transfer of Technology: Industrialization enables Nigerians to acquire the necessary technical and managerial skills necessary for indigenous business ventures.
(xii) Industrialisation leads to the development of infrastructural facilities.

QUESTION 8.

(a) State the theory of comparative advantage in international marketing.
(b) Discuss the measures that can be taken by a country seeking to correct its balance of payments deficit.

Ans. (a) The theory of comparative advantage states that a country should concentrate on the production of the goods and services in which she has a greater comparative advantage over others.

(b) A country can correct deficit on its balance of payments using any or a combination of the following measures:

(i) Tariffs: Increase in import duties and decrease in export duties may reduce importation and increase exportation respectively thus reducing the imbalance on balance of payments.

(ii) Reduction in money supply through tight credit policies of the Central Bank and the adoption of budget surplus may reduce importation and correct adverse balance of payments.

(iii) Increase in income tax so as to reduce the disposable income of the people and thus reduce the consumption of imported products.

(iv) The use of import quotas: the maximum quantity of goods to be imported by importers can be fixed by the government to reduce importation.

(vi) prohibition of goods: The government may place embargo on importation of certain goods.

(vii) Foreign exchange control: the quantity of foreign exchange that can be approved for importation may be regulated to curtail importation.

(viii) Establishment of import – substituting industries: Indigenous investors may be encouraged to establish industries that will produce goods that were hitherto imported.

(ix) Export promotion measured such as tax holidays, provisions of subsidies and liberal credit policy for export – based industries.

(x) Devaluation of currency: A deliberate reduction in the value of the currency of a country in relation to that of another country may correct adverse balance of payment.

QUESTION 9.

(a) Outline the importance of agriculture in the economic development of Nigeria.

(b) Explain these terms:

(i) Plantation Agriculture

(ii) Subsistence Agriculture

Ans: (a) the contribution of the agricultural sector towards economic development in Nigeria includes the follows:

(i) Source of food supply: Agriculture provides food for the ever increasing population in Nigeria.

(ii) Employment opportunities: The agricultural sector employs a large percentage of Nigerians.
(iii) Source of foreign exchange: Through the exports of agricultural raw materials, agriculture provides the much needed foreign exchange for industrialization.
(iv) Agriculture supplies raw materials to the Nigeria manufacturing sector.
(v) A source of government revenue: the government derives a lot of revenue from income taxes from farmers and revenue from export duties on exported agricultural products.
(vi) The agricultural sector provides a ready market for the industrial sector thereby helping to facilitate industrialization in Nigeria.
(vii) Contribution to Gross Domestic Product: The agricultural sector contributes a substantial percentage to the Gross
(viii) Supply of labour to the industrial sector: The agricultural sector releases unskilled and semi skilled labour to the industrial sector.

(b) (i) Plantation Agriculture: Plantation agriculture has the following characteristics:
(a) It involves cultivation of large acreage of land, hence the scale of production is large
(b) In most cases, plantation agriculture involves cultivation of permanent or cash crops.
(c) The method of production is mechanization and modern techniques of production.
(d) Plantations are either owned by the government, private individuals or corporate bodies.
(e) Production is for the market or exports.

(b) (ii) Subsistence Agriculture involves the Following:
(a) Cultivation of small acreage of land hence a small scale production
(b) Production of food crops only
(c) Production is essentially to meet the need of the immediate family and not necessarily for the market.
(d) There is the adoption of crude technology and the use of traditional methods.
(e) Subsistence farms are owned by individuals who are the owners of

the family land on which agriculture is practiced.

QUESTION 10.

(a) Define the term trade by barter.
(b) Discuss the problems associated with trade by barter.

Ans: (a) Trade by barter is the direct system of exchanging goods for goods or services for services.

(b) The problems associated with trade by barter include the following:

i. The problem of double coincidence of wants: it is not easy to establish double coincidence of wants upon which exchange is based.
ii. Time wastage: a lot of time is wasted before double coincidence of want is established.
iii. Difficulty in fixing the exchange rate: There was no standard exchange rage under the barter system of exchange thus there was multiple exchange rates.
iv. Production is limited: since the market is not predictable under barter, production is on a small scale.
v. Problem of indivisibility of goods: some goods are large and not divisible into smaller units. The problem of exchange arises when the large commodity is to be exchanged for smaller goods.
vi. Saving was impossible under barter since the goods were perishable and they may have gone bad before exchange could take place.
vii. The problem of deferred payment: Credit transaction was not possible under trade by barter.
viii. The problem of the bulkiness of some goods. If the commodity involved is heavy to be carried about it is difficult to establish double coincidence of wants.

QUESTION 11

(a) What is supply of a commodity?
(b) Discuss the factors that determine the supply of a commodity.

Ans. (a) The supply of a commodity is the quantity of the commodity that sellers actually offer for sale at a given price and at a particular time.

(b) The factors determining the supply of a commodity are:

i. Cost of production: - A change in the cost of production will lead to a change in the supply of commodity.
ii. The price of the commodity:- Increase in the price of a commodity will increase its supply while a decrease in its price will decrease the supply.
iii. Weather variation:- a favourable weather condition will boost supply while an unfavourable climate will reduce the supply of agricultural products.
iv. The number of produce:- The greater the number of producers the greater the quantity supplied.
v. Changes in the prices of other goods:- If the price of a substitute of complement good changes the supply of a given commodity will also change.
vi. The level of technology:- Improvement in the method of production will increase the supply of a product.
vii. Government policy:- Excise tax on producers may discourage producers from producing more while subsidy increases supply.
viii. Availability of inputs such as raw materials labour and capital will determine the supply of a commodity.
ix. The proportion of output-consumed by the producer will affect the supply.

QUESTION 12

(a) What is a trade union?
(b) In what ways can a trade union resolve conflicts with its management?

Ans. (a) A trade union is an association of workers that fight for higher wages and improved working conditions for members using collective bargaining.

(b) The ways by which a trade union can resolved conflicts with the management includes:

I. Collective bargaining: this involves joint negotiations between the union and the management in order to resolve their differences
II. Threats of strike: A trade union may threaten that workers may withdraw their services if negotiation fails to resolve a conflict.
III. Actual strike: A trade union may order its members to withdraw their services so as to force management to grant the union’s request.

IV. Picketing: the union may employ picketing by disallowing workers to go to their places of work.
V. Work to rule/sit down strike: the worker reports for duty but slows down work.