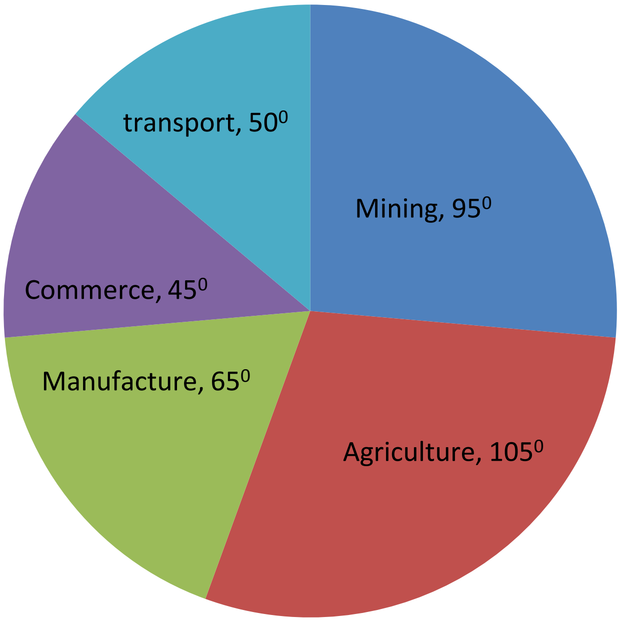
ECONOMICS 2008 MAY/JUNE

QUESTION 1

The pie chart blow represents the contribution of the various section of the economy to the Gross domestic product (GDP) of a country in a particular year. The total value of the GDP for the year was ₦1, 440m.



(a) Determine the contribution of each sector to the GDP.
(b) Which sector is the greatest contributor to the GDP for the year?
(c) If the value of export and import are ₦20m and ₦35m respectively, calculate the Gross national product (GNP).
(d) Is the balance of payments in surplus or deficit?
(e) Calculate the Net income from abroad.

ANSWER

(a) The contribution of each sector to the GDP Agriculture:

$$\frac{105}{360} \times \frac{₦1,440}{1}$$

=₦420m

Mining

$\frac{95}{360} \times \frac{₦1,440m}{1}$

=₦380m

Transport

$\frac{50}{360} \times \frac{₦1,440m}{1}$

=₦200m

Commerce

$\frac{45}{360} \times \frac{₦1,440m}{1}$

=₦180m

Manufacturing

$\frac{65}{360} \times \frac{₦1,440m}{1}$

=₦260m

(b) Agriculture contributor most to the GDP

(c) GNP = GDP + x –m

=₦1, 440m + (₦20m – ₦35m)

=₦1, 440m – 15

=₦1, 425m

(d) The balance of payment is in deficit

(e) The net income from abroad

₦20m – ₦35m

=₦15m

QUESTION 2

The price and quantity data for four commodities purchased by a family at corresponding period in 2005 and 2007 are shown below:

Commodity	2005		2007	
	Price (₦)	Quantity (Q1)	Price (₦)	Quantity (Q)
Bread (Loaves)	80	520	100	390
Textile (Metres)	240	15	300	5
Salt (Kg)	50	20	100	19
Kerosine (Litres)	50	500	70	400

(a) Calculate the elasticity of demand for each of the four commodities
(b) Interpret the elasticity measure for each commodity

Answer

(a) The elasticity of demand for bread

$P1 = 80 \qquad Q1 = 520$

$P2 = 100 \qquad Q2 = 390$

$\Delta Q = 130, \quad \Delta P = 20$

$\% \ \Delta Q \ \frac{130}{520} \times \frac{100}{1} = 25\%$

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

$\text{Elasticity of demand} = \frac{25}{25}$

$= 1$

OR

$\frac{\Delta Q}{Q1} \qquad \frac{\Delta P}{P1}$

$$= \frac{130}{520} \quad \frac{20}{80}$$

$$= \frac{130}{520} \quad \frac{80}{20}$$

$$=1$$

(iii) Textile

P1 = N240 Q1 = 15

P2 = N300 Q2 =5

ΔQ = 10, ΔP = N60

$\%\Delta Q \ \frac{10}{15} \times \frac{100}{1} = 66.6\%$

$\% \ \Delta P \ \frac{60}{240} \times \frac{100}{1} = 25\%$

Elasticity of demand $= \frac{66}{25}$

$=2.6$

(iv) Salt

P1 =N50 Q1 = 20

P2 = N100 Q2 = 19

ΔQ = 1 P = N50

$\%\Delta Q \ \frac{1}{20} \times \frac{100}{1} = 5\%$

$\% \ \Delta P \ \frac{50}{50} \times \frac{100}{1} = 100\%$

Elasticity of demand $= \frac{5}{100} = 0.05$

(v) Kerosine

P1 = N50 Q1 = 500

P2 = N70 Q2 = 400

$\Delta Q = 100 \qquad \Delta P = N20$

$\%\Delta Q \ \frac{100}{500} \times \frac{100}{1} = 20\%$

$\%\Delta P \ \frac{20}{50} \times \frac{100}{1} = 40\%$

Elasticity of demand $= \frac{20}{40}$

$= 0.5$or ½

(b) Bread: The elasticity of demand for bread is unitary

Textile: The elasticity for textile is elastic

Salt: The demand for salt is inelastic

Kerosene: The demand for kerosene is inelastic

QUESTION 3

(a) What is Real Cost?

(b) Carefully relate scarcity and choice to the individual, Firm and government.

ANSWER

(a) Real Cost is the alternative sacrificed in order satisfy a want. The alternative foregone.

(b) The relevance of scarcity and choice to the

individual

No matter how wealthy or rich an individual is, the resources at his disposal is insufficient to satisfy all his wants. An individual with N300, 000 may be in need of a plot of land and a motorcar. The money is not enough to satisfy the two wants. He is therefore forced to make a choice. If he buys the plot of land, which cost N250, 00 and forgoes the motorcar, then the motorcar is the opportunity cost of the plot of land.

Firm

In like manner, the firm faces scarcity of resources. The firm may be contemplating producing either capital or consumer goods. Capital goods may be produced at the expense of consumer goods. The consumer goods foregone therefore becomes the real cost.

Government

Similarly, the government is interested in providing many services to the people but the resources at her disposal is not enough? The government may therefore decide to lay greater emphasis on education rather than agriculture. The agriculture sector then becomes the opportunity cost.

QUESTION 4

Highlight the factors that determine the volume of production in a country

Answer

The volume of production is determined by the following factors

(i) The quantity of resources available.

(ii) The efficiency of the factors of production available.

(iii)The degree of social economic and political stability in the country

(iv) The extent to which the available resources are tapped.

(v) Availability of social infrastructure such as electricity, transportations and water.

(vi) Natural factors such as favourable climate, drought, flooding, earthquake can affect production positively or negatively.

(vii) The state of technology

(viii) The stage of economic development i.e. agrarian or industrial economies

QUESTION 5

(a) Distinguish between geographical and occupational mobility of labour
(b) What factors limit geographical mobility of labour

Answer

(a) Geographical mobility of labour is the case with which workers can move from locality to locality while occupational mobility of labour refers to the ease which workers can move from one job to another.
(b) Factors that limit geographical mobility of labour are:

(i) Availability of social and economic infrastructure such as transportation communication, water, electricity and housing will facilitate geographical mobility
(ii) Social cultural factors: If labour is strongly tied to the social and cultural life of an environment, it hinders geographical movement of labour.

(iii) Condition of service in the present place of work: if a worker enjoys satisfaction with his present job and he is satisfied with the organizational climate as well as the relationship with colleagues at work geographical mobility may be hampered.

(iv) Immigration law: Stringent immigration requirement may limit labour movement across international boundaries.

(v) Climate factors too can affect geographical mobility. Unfavourable weather condition will facilitate movement and vice- versa. Urge to move will not be there.

The cost of movement: movement from one geographical area to another involves some opportunity costs. If the cost involved is exorbitant, this may hinder labour mobility.

QUESTION 6

(a)Explain the concept privatization of public enterprise.

(b) Why did the Nigeria government embark on it?

Answer

(a) Privatization of public enterprises refers to the transferring of the ownership financing and control of government owned enterprises to the private sector. This is an arrangement by which members of the public are allowed to contribute the capital of public enterprises and manage them to allow for greater efficiency and for profitability. Example is NITEL, NICON Nigeria Airways.
(b) Privatization is embarked upon for the following reason.
(i) To make public enterprises more efficient in their operations.
(ii) To allow for profitability

(iii) Privatization allow for greater capital investment

(iv) To eliminate wastage arising from prestigious or white elephant project.
(v) To remove government or political interference

(vi) To ensure commitment and dedication to work by the workers and managers

(vii) To allow for initiative in the operation of the business instead of being bureaucratic.

(viii) To eliminate or reduce fraud and corrupt tendencies.

QUESTION 7

a. What has been the contribution of the petroleum sector to the development of the economy?

b. What are the problems of the sector?

Answer (a) The contributions of the petroleum sector to the development of Nigeria economy are:

(i) A Source of government revenue: more than 70% of the total revenue of the country come from oil companies in form of royalties and profit tax.

(ii) A source of foreign exchange earnings for the country through exportation of crude oil and other petroleum products.

(iii) The petroleum sector had made possible the transfer of foreign technology into Nigeria in form of skilled manpower and entrepreneurship.

(iv) A source of employment to many Nigerians at the prospecting, mining and refining stages.

(v) The supply of the energy requirement of the country in form of fertilizer, kerosene, fuel, gasoline and cooking gas come from petroleum.

(vi) Increase in the average income of the people. The advent of petroleum had contributed to higher income per head in Nigeria.

(vii) Increase in living standard of Nigerians.

(viii) Rapid economic development: the petroleum sector had made infrastructure in the country.

(b) The problems of the petroleum sector

i. Oil spillage leading to environmental pollution
ii. The problem of agitation for resource control by the oil producing states
iii. Instability in oil prices in the world market
iv. Instability of the oil revenue due to instability in oil prices
v. Inefficient distribution of petroleum products
vi. The influence of OPEC: OPEC determines the production quotas and pricing policies of petroleum products for members states.
vii. Vandalzation of petroleum products pipelines in the Niger Delta.

QUESTION 8

a. Distinguish between tariffs and non-tariff barriers to international trade.

b. What benefits does Nigeria derive from trading with other countries?

Ans. a. Tariff barriers are the taxes such as export and import duties imposed on the exports and imports of a country while, non-tariff barriers are the quantitative barriers such as quotas and embargo imposed on the imports and exports of a country.

b. The benefits of international trade to Nigeria

i. Improved living standard for Nigeria through the consumption of imported goods
ii. A wider market for the exports of Nigeria
iii. Increased output of goods and service to meet international demand
iv. Reduction in the rate of unemployment in Nigeria

v. It guarantees efficiency in production through the production of high quality products to meet international standard
vi. Nigeria is able to maintain friendly relations with other countries through international trade.
vii. Rapid economic development is achieved through importation of raw materials and transfer of technology
viii. It is a source of revenue to Nigeria through exports and import duties.

QUESTION 9.

a. Distinguish between surplus and deficit budgets
b. Highlight the main heads of government expenditure.

Ans.

a. Surplus budget refers to a situation when the expected revenue in a year is greater than the proposed expenditure whereas deficit budget arises when the expected revenue in a year falls short of the proposed expenditure.

b. The main heads of government expenditure

i. General administration: These are expenses on the maintenance of the civil service and political appointees.
ii. National defence: Maintenance of the army, navy and airforce
iii. Maintenance of internal law and order
iv. Provision of social and economic infrastructure such as electricity, health, water, transp0rtation and education.
v. For rapid economic development – agricultural and industrial developments
vi. Servicing of national debts – Repayment of loans plus the interest
vii. Grants and aids to states and local governments to meet emergencies such as disasters.
viii. Expenses to meet international obligations such as UNO, AU and ECOWAS.

OR

Government expenditure can be classified into two broad headings

i. **Recurrent expenditure** – Recurrent expenditure are the expenses the government incurs every year. Recurrent expenditure are expenditure not meant to create new assets or wealth.

Recurrent expenses include expenses on general administration, defence, maintenance of law and order, repairs of assets, maintenance of infrastructure wages and salaries, fuel, rent, loan repayments and interests on such loans expenses on stationeries etc.

ii. **Capital expenditure:** These are expenses on projects which are permanent in nature. It is the production of real physical assets. Capital expenditure may not be undertaking on yearly basis. Examples of capital expenditures are building of houses, schools, hospitals, administrative offices, construction of roads, airports, seaports, dams, bridges, establishment of manufacturing industries, procurement of ploughs, harvesters, silos, motor vehicles etc.

QUESTION 10. What problems are faced by the agricultural sector in Nigeria in recent times?

i. Neglect of the agricultural sector due to over reliance on petroleum
ii. The problem of land tenure system
iii. The use of crude and inefficient technology
iv. Non-availability and prohibitive prices of farm inputs like fertilizer, pesticides and tractors
v. Vagaries of weather
vi. Small scale production due to limited land holding
vii. Poor transportation
viii. Inadequate storage facilities
ix. Limited capital investment by farmers. Farmer do not have access to large capital for investment
x. Low output per farmer
xi. Fluctuations of the prices of agricultural products leading to unstable farmer's income/poor marketing strategy.
xii. The use of inefficient method of bush burning and shifting cultivation.

QUESTION 11.

a. What is national income
b. Mention and explain the uses of national income statistics

answer.

a. National income is the monetary value of all goods and services produced in a country in a year. It is the total of all profits, interest, wages and salaries and rents received by factor owners in a country in a year.

b. The national income estimate is useful for certain purposes.
    i. National income estimate is useful for economic planning
    ii. The statistics can be used to measure economic progress of the entire economy of each sector of the country.
    iii. It is a measure of the level of standard of living of a country/the per capital income.
    iv. National income statistics is useful in comparing international standards of living.
    v. It is useful to determine which countries should be granted aids and technical assistance by international organizations.
    vi. Foreign investments: foreign investors are interested in national income figures in deciding where to invest.
    vii. Contribution to international organizations such as the UNO, AU, ECOWAS and the common wealth are based on national income estimates.

QUESTION 12

a. Explain demand for money
b. What are the reasons for holding money

a. The demand for money is the desire or willingness for people to keep money in liquid form like cash rather than spending it on goods and services or investing it on securities rather than spending it on goods and services.
b. Reasons for holding money are:
    i. <u>Transactions Motive:</u> This is money held to meet day to day purchases like food, transportation and clothing. The amount being set aside for transactions motive depends on the level of income.
    ii. <u>Precautionary Motive:</u> People set aside some money to meet emergencies such as funerals, sickness or maintenance of motor vehicles. The higher the level of income, the greater the amount held for precautionary reasons.
    iii. <u>Speculative Motive:</u> People hold money based on speculations about changes in interest rates. If interest rate is envisaged to fall, people will invest and hold less cash before the fall in interest occurs. If it is sensed that interest rate will soon rise, people will

prefer to hold money rather than investing it. Also if prices of goods and services are likely to fall very soon, people will demand for money and vice versa. The amount of money to be held for speculative purposes depends on the interest rate and the relationship is inverse.