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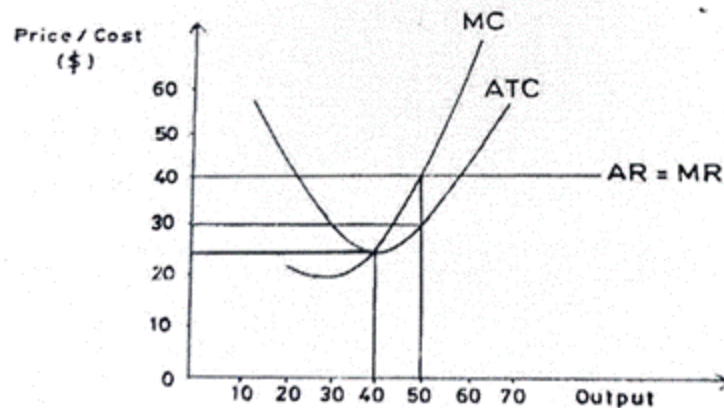
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## Question 1

The equilibrium position of a firm is illustrated in the diagram below. Study the diagram and answer the questions that follow.



- (a) Determine the firm's:
  - (i) equilibrium output level;
  - (ii) equilibrium price.
- (b) At the equilibrium output level, calculate the firm's:
  - (i) total cost;
  - (ii) total revenue;
  - (iii) total profit.
- (c) Is the firm operating in the long-run or short-run? Explain your answer.
- (d)
  - (i) What type of market is the firm operating in?
  - (ii) List three features of the market type identified in (d)(i).

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### Observation

This is one of the data response questions and most of the candidates who attempted it scored above average marks. Most of the candidates who attempted the (a) part of the question were able to identify the equilibrium output level and price correctly, however, a few candidates wrongly stated the output level and price combination associated with the point where  $MC = ATC$  i.e. 40 units and \$25 instead of the combination associated with the point where  $MC = MR$ . Few candidates also omitted the unit of measurement when providing answers to the (b) part e.g. total cost expressed in dollars (\$). Some candidates were also unable to identify the period in which the firm was operating based on the type of profit earned in the (c) part.

The candidates were expected to provide the following answers to score higher marks.

(a) (i) Equilibrium output level = 50 units

(ii) Equilibrium price = \$ 40.00

(b) (i) Total cost (TC) =  $AC \times Q$   
 =  $\$ 30 \times 50$   
 = \$ 1500

(ii) Total revenue (TR) =  $AR \times Q$   
 =  $\$ 40 \times 50$   
 = \$ 2000

(iii) Profit =  $TR - TC$   
 =  $\$ (2000 - 1500)$   
 = \$ 500

**OR**

Profit =  $(AR - AC) \times Q$   
 =  $\$ (40 - 30) \times 50$

**or**

=  $\$ 10 \times 50$   
 = \$ 500

(c) The firm is operating in the short-run because it is operating in a perfect market and it made abnormal/super normal profit, where its price > average cost and average cost < average revenue.

(d) (i) Perfectly competitive market/perfect market.

- (ii) - There are many buyers and sellers.  
 - There is free entry and exit into and from the market.  
 - Sellers are price takers/there is one market clearing price/there is no government intervention.  
 - There is perfect knowledge about the market.  
 - There are no extra transport costs incurred.  
 - Goods sold are homogeneous.  
 - There is no preferential treatment.

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## Question 2

Table 1 below represents the output levels of a firm producing hand sanitizer. Use the information to answer the questions that follow.

**Table 1**

<i>Output (units)</i>	0	10	18	28	36	45
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If the cost function of the firm is given as  $C = 30 + 4q$ , where  $C$  is the total cost and  $q$  is the units produced, calculate the:

- (a) total cost in dollars of producing:
- (i) 18 units;
  - (ii) 36 units.
- (b) average cost in dollars of producing:
- i. 28 units;
  - ii. 45 units.
- (c) What is the marginal cost in dollars of producing 28 units?
- (d) Determine the profit made from producing 45 units when the market price is fixed at \$ 5.00 per unit.
- (e) Determine the fixed cost of the firm. Explain your answer.

### Observation

This is the alternative data response question, majority of the candidates who attempted this question scored above average marks. Few of the candidates did not show the full workings required in arriving at the answers to the (a), (b), (c) and (d) parts of the question; some omitted formulae while others missed important steps in the calculations. Few candidates were unable to calculate marginal cost in the (c) part. Some other candidates could not also explain why fixed cost is \$30 in the (e) part of the question thereby losing valuable marks.

The candidates were expected to provide the following answers to obtain the maximum mark.

$$(a) (i) \quad \mathbf{TC18} = 30 + 4(18) = 30 + 72 = \$ 102$$

$$(ii) \quad \mathbf{TC36} = 30 + 4(36) = 30 + 144 = \$ 174$$

$$(b) (i) \mathbf{AC28} = \frac{\mathbf{TC28}}{28} = \frac{30 + 4(28)}{28} = \frac{142}{28} = \$ 5.07 \text{ or } \$ 5.1$$

$$(ii) \mathbf{AC45} = \frac{\mathbf{TC45}}{45} = \frac{30 + 4(45)}{45} = \frac{210}{45} = \$ 4.67 \text{ or } \$ 4.7$$

$$(c) \mathbf{MC28} = \frac{\mathbf{TC28} - \mathbf{TC18}}{28 - 18} = \frac{(30 + 4(28)) - (30 + 4(18))}{28 - 18} = \frac{142 - 102}{10} = \$ 4.00$$

$$(d) \text{ Profit} = \mathbf{TR} - \mathbf{TC} = (\$ 5 \times 45) - \$ 210 \\ = \$ (225 - 210) \\ = \$ 15$$

- (e) Fixed cost of the firm is \$ 30 when  $q = 0$ ,  $C = 30 + 4(0) = \$ 30$   
**or** At output 0, Total Fixed Cost incurred is \$ 30.

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## Question 3

- (a) Distinguish between:
- (i) money cost and opportunity cost;
  - (ii) normal good and inferior good.
- (b) Explain how the scale of preference assists the following economic groups in making efficient allocation of their resources:
- (i) individuals;
  - (ii) firms;
  - (iii) governments.

### Observation

This question was popular among the candidates. Some of them lost marks because they provided a one sided explanation when distinguishing normal goods from inferior goods in the (a) part of the question. Some of the candidates were unable to give strong answers in the (b) part, most of them focused on explaining scale of preference as a concept without exploring how scarcity necessitates choice and how the tool assists the listed economic units in allocating their resources. The performance of candidates in this question was average.

Candidates were expected to answer thus to obtain maximum marks:

(a) (i) Money cost is the expenses in terms of money incurred to produce or to have commodity.

While opportunity cost or real cost is the alternative forgone or that which has to be sacrificed to have a commodity.

(ii) A normal good is a good for which its demand increases when income increases and demand decreases when income decreases. While an inferior good is a good for which its demand tends to fall when income rises and its demand rises when income falls.

(b) (i) When an individual is faced with the problem of limited resources, a scale of preference will enable such an individual to order/arrange his wants according to which one gives the highest amount of satisfaction/is urgently needed/is the most important. He will then allocate his resources to obtain the want that gives the highest

amount of satisfaction.

(ii) A firm is also faced with the problem of limited resources needed to produce everything it wants. It will therefore rank its production according to which product will give the highest amount of satisfaction which is measured in terms of profit. The firm will therefore allocate its resources according to which product gives the highest amount of profit.

(iii) Government is also faced with the problem of limited resources/revenue. It cannot therefore produce all the goods and services it wants. It will therefore rank the goods and services according to which one will give the citizenry the highest amount of well-being or welfare. It will therefore allocate the resources to produce such goods and services.

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## Question 4

- (a) Define economic system.
- (b) Distinguish between a capitalist economy and a socialist economy under the following:
- (i) aim of production;
  - (ii) consumer sovereignty;
  - (iii) competition.
- (c) State three features of land as a factor of production.

### Observation

This was also a popular question. In the (a) part of this question, most candidates were able to define economic system but, few of them were able to recognize the difference between the economic systems listed above in terms of the specific features in the (b) part of the question. The performance of candidates in this question was average.

Candidates were expected to answer thus:

(a) (i) An economic system is the social, legal and institutional framework for the management of resources in an economy.

**OR**

An economic system is any arrangement adopted by a country to manage the scarce resources of the country effectively.

(b) (i) Aim of production

In capitalism, the aim of production is to make profit so goods and services are being produced on a large scale.

In socialism, the aim of production is to provide for the welfare of the citizens by making goods and services available at low/affordable prices.

(ii) Consumer sovereignty

In capitalism, the consumer is king as it is he who dictates what is to be produced through his purchases. The consumer's taste drives production.

In socialism, consumers' demands are determined by government so they have little or no influence on what is produced.

(iii) Competition

Since profit is the motive in capitalism, competition exists and it ensures efficiency and this leads to production of high quality goods that attract customers.

In socialism, there is no competition since government decides what is to be produced. Government is the sole producer and this can lead to production of low quality goods.

(c) (i) Land is a natural gift and has a zero cost of production.

(ii) The supply/size of land is fixed and cannot be increased or decreased.

(iii) The quality of land can be degraded if not used with care.

(iv) Land has many uses which are both short-term (farming, fishing) and long-term (roads, dams, factories)

(v) The value of land depends upon its location. Land in urban centres cost higher than land in rural areas.

(vi) Land is subject to diminishing returns if the right number of a variable factor is not applied to it.

(vii) Land is geographically immobile.

(viii) Land is heterogeneous. Its quality varies, some may be more suitable for residential purposes than for other purposes.

(ix) The reward for land is rent.

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## Question 5

- (a) Differentiate between a sole proprietorship and a partnership.  
 (b) List four characteristics of a sole proprietorship.  
 (c) Outline four advantages of a public limited liability company.

### Observation

This was the most popular question. Most of the candidates who attempted this question were able to define a sole proprietorship in the (a) part of the question, but failed in defining a partnership in terms of its accurate membership limit, for instance, some wrongly defined a partnership as having two or more members. Some of the candidates merely listed the advantages of public limited liability companies and did not explain the points raised in the (c) part of the question. Candidates' performance was average in this question.

Candidates were expected to provide the following answer to score maximum marks in this question.

(a) (i) A sole proprietorship is a type of business owned and controlled by an individual with the primary aim of maximizing profit.

While, a partnership is a type of business set up by two to twenty members with a common goal of making profits.

(b) (i) It is set up by a single person who bears all risks.

(ii) Capital is provided by only the owner either from his personal savings, inheritance etc.

(iii) He enjoys all the profits since he provides the capital alone.

(iv) He manages and controls the business alone.

(v) It is not a legal entity because the business is not separate from the owner.

(vi) His death or incapacitation may lead to a collapse of the business.

(vii) He has unlimited liability since losses could extend to his private property.

(viii) Decision making is easy and fast because he does not need to consult other people.

(ix) It is easy to establish because not many legal formalities are needed.

(c)(i) It can raise large capital through the sale of shares.

- (ii) It enjoys economies of scale because it can easily expand output or its size of operation.
- (iii) It can sue and be sued because it is a legal entity.
- (iv) There is continuous existence if a member withdraws or dies because shares are legally transferable.
- (v) It enjoys limited liability since shareholders lose only capital invested in times of bankruptcy.
- (vi) Shares can be transferred easily through the stock exchange market.
- (vii) It is easy for them to get loans from the banks because they have the necessary collateral.
- (viii) It can attract highly qualified specialists and experts to ensure efficiency and enjoy economies of scale.
- (ix) Ownership is separate from the management to improve corporate governance.
- (x) Business risks are shared among many shareholders.

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## Question 6

- a. Define location of industry.
- b. Explain how the following factors influence where a firm is sited:
  - (i) raw materials;
  - (ii) market;
  - (iii) government policy.
- c. Outline three advantages of localization of industry.

### Observation

This question was not popular among the candidates and their performance was below average. Majority of them confused location of industry with localization of industry in the (a) part. The (b) part also proved difficult for most of the candidates, the influence of the listed factors on the location of a firm was not answered well. Some of the candidates were able to give relevant benefits of localization of industry in the (c) part of the question, however the points raised were not developed adequately.

Candidates were expected to answer thus to score maximum marks in this question.

- a. Location of industry refers to the siting of a firm in a particular area to minimize the cost of production based on certain factors.
- b. (i) Raw materials:  
If the raw material used is quite bulky or perishable, transporting it over a longer distance is much expensive or risky and so firms will site their factories near the source of raw materials to reduce transportation costs e.g. wood and mining companies, food processing and fish farming firms etc. are located near the raw material.
- (ii) Market:  
Where finished products are highly perishable, bulky or fragile such that damage will be done to them in the process of transporting them, firms are located very close to the market e.g. glasses, tiles, etc.
- (iii) Government policy:  
Governments may want to ensure even development or fulfill campaign promises by siting a firm in a particular area through its policies or laws e.g. industrial estates. This choice is often made without giving any consideration to its economic implication.

Labour already employed can easily acquire new skills which will be useful in other firms.

(ii) New firms can tap the expertise of old ones when it comes to training.

(iii) Subsidiary firms that can use the by-products of established firms will emerge.

(iv) Firms can co-operate and buy raw materials in bulk to reduce per unit cost or support one another in times of need.

(v) It facilitates division of labour and specialization where different parts of a product e.g. equipment, is produced by different firms.

(vi) Common problems are identified and a joint research unit can be formed to help solve problems that will arise e.g. internet services, accessibility, security etc.

(vii) More jobs are created for the people where an industry is localized and this helps to improve the standard of living of the people.

(viii) A localized industry easily attracts government attention for the provision of infrastructure.

(ix) It helps in the development of areas where they are localized through the provision of housing estates, schools, market, electricity etc.

(x) Skilled labour is employed by the firms at competitive rates.

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## Question 7

- a. Define Gross Domestic Product (GDP).
- b. Describe the output approach as a method of computing national income.
- c. Identify any three problems associated with the expenditure approach of calculating national income.

### Observation

Few candidates attempted this question and majority of them were unable to define Gross Domestic Product in the (a) part. Most of the candidates were also unable to describe the output approach of computing national income. The problems associated with the expenditure approach of calculating national income was also not identified by many candidates in the (b) part of the question. Their performance in this question was below average.

The candidates were expected to answer thus:

(a) Gross domestic product is the total money value of all final output of goods and services produced within the boundaries of a country during a specified period of time, usually a year.

(b) The output approach calculates the Gross Domestic Product of a country by adding together the values of the net contributions of all the various sectors of the economy. To avoid double counting, either the value-added at every stage of production is added together or the value of only the final output of goods and services produced in the economy is considered. The value of exports is included while the value of imports is excluded to arrive at Gross National Product. The value of the physical wear and tear of capital goods used during production called depreciation must be deducted to arrive at the Net National Product at market price. Indirect business taxes are then deducted and subsidies added to arrive at national income which is at factor cost.

(c) (i) Problem of determining the values of all imports and all exports since many transactions do not pass through the official channel.

(ii) There is the problem of double counting as intermediate and final expenditures are sometimes included.

(iii) There is inadequate records of the expenditures of the households and business

units in the informal sector.

(iv) Services not paid for such as owner occupied houses and do-it-yourself activities lower the national income e.g. communal labour on a project.

(v) Problem of deciding which method of depreciation allowance to be used.

(vi) Frequent changes in price and the value of money make determination of the value of goods difficult.

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## Question 8

- a. What is an embargo?
- b. Outline any three reasons for imposing tariffs on imports.
- c. Explain any three reasons against the use of tariffs.

### Observation

Most of the candidates who attempted this question were unable to define embargo correctly in the (a) part of the question, but demonstrated a good knowledge of the reasons for the imposition of import tariffs and reasons against the use of tariffs in the (b) and (c) parts of the question respectively. Candidates performed well in this question.

The candidates were expected to give the following answers to score maximum marks:

(a) An embargo is an outright ban instituted on the import or export of a good or service.

(b) (i) It is used to protect infant/local industries to be able to stand on their feet and expand.

(ii) It is a means of helping to increase employment in the home country.

(iii) It is a means of raising revenue for the imposing country.

(iv) It helps countries with long-term balance of payments problems to correct them.

(v) It is a measure to control dumping.

(vi) It is used to control the consumption of products considered harmful.

(vii) It can be used as a retaliatory measure against other imposing countries.

(viii) To restrict trade with /act as a sanction against some unfriendly countries.

(ix) For strategic reasons e.g. national security.

(c) (i) It can lead to possible retaliation from affected countries.

(ii) Protection of local firms do not encourage them to grow, they produce low standard goods since there is little or no competition.

(iii) It may lead to loss of revenue for the imposing country depending on the elasticity of demand for imports and exports.

- (iv) It can lead to smuggling of products considered harmful and also of other products to evade tax.
- (v) Consumers in the home country are denied the opportunity of choosing from a variety of imports.
- (vi) It may lead to contraction of total world output.
- (vii) It can cause increase in prices in affected countries/ high cost of living/ low standard of living.

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