

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: ECONOMIC ENVIRONMENT (IOBM-D211)**

**Date: Friday, 8th November 2013**

**Time Allocated: 3 hours (8:00 am - 11:00 am)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 4 questions, each question carries 15 marks. Answer **ALL** questions.

3 Section B consists of 4 questions, each question carries 20 marks. Answer **ANY TWO** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination when you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. Answer books without examination numbers will not be marked.**

7 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section

**QUESTION 1**

The Government of Malawi is contemplating privatising Air Malawi, the national airline, which it says has become an economic burden.

1. Distinguish between Privatisation and Nationalisation. *(4 marks)*

1. Explain **three** reasons why some people argued against the privatisation of Air Malawi. *(9 marks)*
2. If you were to advise government, what other **two** alternatives could they consider that would be less detestable to the majority of the citizens.

*(2 marks)*

**(Total 15 marks)**

**QUESTION 2**

Consumer

Expenditure

C=a+cYd

Real Disposable Income

1. The Graph above shows consumption function **(C=a+cYd )** of a closed economy where **C** is the Consumption level, **a** is the autonomous consumption, **c** is the marginal propensity to consume and **Yd** is disposable income.

If National disposable income is MK5 million and marginal propensity to consume is 85%.

1. Calculate Marginal Propensity to Save *(3 marks)*
2. Calculate the consumption level *(3 marks)*
3. Calculate the Multiplier *(5 marks)*
4. From your answer in (a) above, what does the multiplier effect mean to aggregate demand? *(4 marks)*

**(Total 15 marks)**

**QUESTION 3**

1. Explain **three** ways that are used to measure National Income. *(9 marks)*

1. Malawi is experiencing many different economic problems. Mr Phiri a resident of Zomba city thinks the economy is in recession. Explain whether you agree or disagree with Mr Phiri. *(6 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Besides raising Government revenue, what are **three** other uses of taxes? *(6 marks)*
2. With the aid of a diagram, explain how taxes are used when a country has embarked on an expansionary fiscal policy. *(9 marks)*

**(Total 15 marks)**

**SECTION B**  **(40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

A fixed exchange rate system with free capital flows between countries is badly positioned for a Revaluation or Devaluation.

1. What are the characteristics of a pure command economy? *(4 marks)*
2. Assume there are rumours that the economy in the fixed exchange rate regime is going to revalueits currency. What do you expect to happen in the economy in the short term following the rumour? *(12 marks)*
3. State **two** advantages and **two** disadvantages of a floating exchange rate in a mixed economy system like Malawi *(4 marks)*

**(Total 20 marks)**

**QUESTION 6**

Chigumula manufacturing company has six permanent employees that are permanently employed at this company. Below is their monthly remuneration schedule.

|  |  |  |
| --- | --- | --- |
|  | Position | Total Salary (MK) |
| 1 | Messenger | 5000 |
| 2 | Driver | 10000 |
| 3 | Secretary | 15,500 |
| 4 | Accountant | 35,000 |
| 5 | Engineer 1 | 50,000 |
| 6 | Manager | 100,000 |

The tax brackets are as follows:

MK0- MK 5, 000 = 5%

MK 5,001-MK20, 000 = 10%

MK20, 001 – MK50, 000 = 15%

>MK50001 = 20%

1. Calculate the income tax on each employee that will be submitted to Malawi Revenue Authority. *(16 marks)*
2. State **two** examples of indirect tax applicable in Malawi. *(4 marks)*

**(Total 20 marks)**

**QUESTION 7**

Malawi is a land locked and developing state. As an economics student, you can agree that there is need for economic transformation before significant economic growth can be experienced.

1. In your view, what needs to be done for the economy to move from a developing to a developed state? *(9 marks)*
2. Explain **four** negative impacts of economic growth *(8 marks)*
3. What does “sustainability” signify in development? *(3 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. State **four** functions of the central bank of Malawi. *(4 marks)*
2. With the aid of a diagram, discuss how the Central Bank would use interest rates to reduce the demand for money. *(10 marks)*
3. Explain **three** ways through which the Government of Malawi can maintain low inflation in the economy. *(6 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**