

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

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

**Date: Tuesday, 14th November 2017**

**Time Allocated: 3 hours (13:30 – 16:30 Hours)**

**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, 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. All answer books without examination number will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester

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

**SECTION A (60 MARKS)**

Answer ALL questions from this section.

**QUESTION 1**

1. Explain with examples any **two** causes of increased aggregate demand for goods and services. *(4 marks)*
2. Explain how the following policies are used to control inflation in Malawi
3. Fiscal policy
4. Monetary policy *(8 marks)*
5. List **three** most common causes of unemployment in Malawi? *(3marks)*

**(Total 15 marks)**

**QUESTION 2**

1. “It has been argued by analysts that Malawi is a free market economy”. To what extent do you agree with the statement? Give your answer with practical examples.

*(7 marks)*

1. Economists make a distinction between three types of resources – land, labour and capital. Malawi has an abundance of labour. List any **two** limitations of the available labour in Malawi? *(4 marks)*
2. There are **four** steps in Economic methodology. List the four steps. *(4 marks)*  **(Total 15 marks)**

**QUESTION 3**

1. Define Marginal Propensity to Save (MPS). *(2 marks)*

1. With the aid of a clearly labelled diagram, explain **two** factors that would cause a shift in the consumption function. *(8 marks)*
2. i) What is the multiplier effect? *(2 marks)*

ii) Outline the relationship between the multiplier effect and Marginal Propensity to Consume. *(3 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Write short notes on the following terms on tax:
2. Proportional taxation
3. Regressive taxation
4. Progressive taxation *(6 marks)*
5. Assume that the rates of Pay As You Earn (PAYE) tax rates are as follows: K0.00 to K20, 000.00 is 0%, K20, 000.01 to K30, 000 is 15%, Above K30, 000.01 is 20%. Calculate the net pay that an employee earning the following salary will receive;
6. K50,000.00
7. K75,000.00 *(6 marks)*
8. Briefly discuss the effect of raising the Value Added Tax (VAT) from 16.5% to 20% on the consumer: *(3 marks)* **(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

1. In the late 1990s the Malawi Government privatised the rail transport in Malawi, briefly outline **three** advantages and disadvantages of the move. *(12 marks)*
2. As a consultant to the Privatisation Commission you have been asked to write a paper on ‘Alternatives to Privatisation’ for a staff meeting. Discuss the two alternatives. *(8 marks)* **(Total 20 marks)**

**QUESTION 6**

1. Differentiate between Gross Domestic Product (GDP) and Gross National Product (GNP) (*6 marks*)
2. Briefly explain **three** limitations of GDP as a measure of living standards in an economy. *(6 marks)*
3. Explain any **one** measure of the social welfare and quality of life that would capture the most measurable variables in Malawi. Justify your answer. *(8 marks)*

**(Total 20 marks)**

**QUESTION 7**

1. List any **three** assumptions underlying the concept of comparative advantage.

*(6 marks)*

1. Briefly explain how the above **three** assumptions would not apply to Malawi economy. *(6 marks)*

|  |  |  |
| --- | --- | --- |
|  | Apples Juice | Mango Puree |
| Republic of South Africa | 1, 000 | 200 |
| Malawi | 3, 000 | 1, 000 |
| **Total Output** | **4, 000** | **1, 200** |

Which country has comparative advantage in Mango Puree? Explain your answer

*(8 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. Define the term balance of payments.  *(2 marks)*
2. Explain **three** challenges that the economy of Malawi faces to achieve a ‘Balance of Payments’ equilibrium. *(6 marks)*
3. Propose **three** solutions that the Malawi Government can use in order to achieve a ‘Balance of Payments’ equilibrium. Justify your answers. *(12 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**