

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

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

**Date: Friday, 13th November 2015**

**Time Allocated: 3 hours (08:00 – 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, 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 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**

Among the several objectives of macroeconomic policies that are pursued by governments in Malawi which one do you consider the most important and why?

**Hint:** make a detailed comparison of at least your top **three** objectives to demonstrate your chosen objective’s practical relevance to the Malawi economy.

**(Total 15 marks)**

**QUESTION 2**

“Money is such an integral part of our daily lives that its significance is not always appreciated”

* 1. To what extent do you agree with this statement? **Note:** use the concept “double coincidence of wants *(6 marks)*
  2. In your opinion what do you consider to be the most important function of money today? **Hint:** justify your position by a brief comparison of alternative functions of money. *(9 marks)*

**(Total 15 marks)**

**QUESTION 3**

Comparative advantage is a dynamic concept that changes with time that requires taking into consideration certain factors that impact on the relative cost of production.

1. List any **five** assumptions behind the theory of comparative advantage? *(5 marks)*
2. Explain any **five** factors that may impact on a country’s ability to produce cost effectively on the international level *(10 marks)*

**(Total 15 marks)**

**QUESTION 4**

The Phillips Curve is a unique economic tool that depicts the relationship between inflation and unemployment.

* 1. Describe any **two** types of unemployment common in Malawi *(4 marks)*
  2. Use the “curvature” of the Phillips Curve to explain the different scenarios of inflation-unemployment relationship *(9 marks)*
  3. Explain the opposite scenario of the concept of the Phillips curve *(2 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

Economists often use the relationship between the interest rate and bond prices to explain the speculative demand for money. Below is a hypothetical example of three different scenarios of 30 year bond.

Table 1: Summarized Bond Pricing Schedule

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Bond**  **Scenario** | **Yield at Auction** | **Interest Coupon Rate** | **Accrued Coupon Interest** | **Market Price** | **Dirty Price** |
| Scenario 1 | 4.50% | 4.25% | 0.000% | 96.333 | 96.333 |
| Scenario 2 | 4.25% | 4.25% | 2.125% | 100.000 | 100.021 |
| Scenario 3 | 4.00% | 4.25% | 2.125% | 105.018 | 105.039 |

1. With reference the pricing terminology in bonds identify which of the three bond scenario(s) displayed in Table1 above is/are
2. trading at a discount price;
3. premium price; and
4. justify your choices in (i) and (ii) *(8 marks)*
5. Which scenario will require a potential investor in bonds to pay a dirty price and why? *(4 marks)*
6. Define the concept of Yield *(4 marks)*
7. Explain the relationship between bond price and interest rates. *(4 marks)*

**(Total 20 marks)**

**QUESTION 6**

Discuss in detail any **two** most commonly used Monetary Policy implementation instruments used by the Reserve Bank of Malawi.

**(Total 20 marks)**

**QUESTION 7**

Privatization and Nationalization are extremely opposite processes of transferring property between public ownership and private ownership. Recently the Malawi Government established the Public Private Partnership Commission to replace the Privatization Commission to oversee the Public Private Partnership (PPP) initiative. You have been recruited as an economist under the new government agency.

Using your foreknowledge on the advantages and disadvantages of both Privatization and Nationalization, *explain* the rationale behind the establishment of the PPP Commission.

**(Total 20 marks)**

**QUESTION 8**

Discuss the **four** major disadvantages of economic growth.

**(Total 20 marks)**

**END OF EXAMINATION PAPER**