

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

**SUBJECT: INTRODUCTION TO ECONOMICS (IOBM – C106)**

**Date: Tuesday, 16th May 2017**

**Time Allocated: 3 hours (08:00 – 11:00Hours)**

**INSTRUCTIONS TO CANDIDATES**

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

2 Section A consists of 20 multiple questions; each question carries 2 marks.

Answer **ALL** questions.

3 Section B consists of 5 questions; each question carries 20 marks. Answer **ANY THREE** 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. 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 (40 MARKS)**

Circle **ALL** correct answers from this section in the answer sheet provided.

1. The key issues of Macroeconomics are
2. Unemployment
3. Inflation
4. Economic growth
5. All of the above
6. The Opportunity cost of a student is
7. Course fees and transport
8. A loan from the bank
9. What the student could have earned in the best job available by not studying
10. What the student will earn after graduation
11. A competitive firm produces a level of output at which
12. Price is greater than Marginal Cost
13. Price equals Marginal Cost
14. Price is less than Marginal Cost
15. None of the above
16. If the Reserve Bank of Malawi buys financial securities in the open market to increase the monetary base, this is an example of
17. Lender of last resort
18. Financial intermediation
19. Open market operations
20. Financial regulation
21. **Which of the following is also known as International Bank for Reconstruction and Development?**
22. Asian Development Bank
23. World Bank
24. African Export Import Bank
25. International Monetary Fund
26. **Which among the following is a cause of inflation?**
27. Deficit financing
28. Rise in external loans
29. Unfavourable balance of payment
30. A hike in the CRR by the Reserve Bank of Malawi
31. **Cost push inflation occurs because of:**
32. Wage push
33. Profit push
34. Both A and B
35. Ineffective policies of the government
36. The final output (goods and services) produced within the country during a particular period, usually a year, is called
37. Exports
38. GNI
39. GDP
40. GNP
41. Chilenje Food Processors Limited is in the business of selling packets of groundnuts flour. The selling price of each 500g packet is K300. In the month of February 2017, the enterprise sold 1,000 500g packets. Calculate the Total Revenue realised
42. K30,000
43. K150,000
44. K300,000
45. K500,000
46. If the inflation rate is 25%, then a packet of Surf washing powder which cost K1200 in January 2016 is now costing how much this year of 2017?
47. K1050
48. K1450
49. K1500
50. K500
51. **Number of times a unit of money changes hands in the course of a year is called\_\_\_\_\_\_\_**
52. Supply of money
53. Purchasing power of money
54. Velocity of money
55. Value of money
56. Real GNP is a crude measure of national welfare because it excludes
57. Consumption
58. Exports
59. Investment
60. Work in the home
61. Price elasticity of demand measures
62. The responsiveness of quality demanded to a change in price
63. How far a demand curve shifts
64. A change in price
65. A change in quantity demanded

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1. A fall in investment demand can result from
2. Higher interest rates
3. Lower expected future profits
4. More expensive capital goods
5. All of the above
6. The price of a cellular phone in Blantyre Flea Market has been adjusted from K10, 000 to K15, 000 within the month of January 2017. As a result the quantity sold in the month changes from 1, 000 to 800 units. The Price Elasticity of Demand is;
7. Inelastic
8. Elastic
9. Perfectly elastic
10. Perfectly inelastic
11. **is the official minimum rate at which the Central Bank of a country is prepared to rediscount approved bills held by the commercial banks.**
12. Repo rate
13. Bank rate
14. Prime lending rate
15. Reverse repo rate
16. Adding up the quantities demanded of a good by different people facing the same price gives us the
17. Supply curve
18. Market demand curve
19. Demand curve
20. Market supply curve
21. Inferior goods have luxury goods have
22. Negative income elasticities, income elasticities greater than 1
23. Income elasticities greater than 1, negative income elasticities
24. Positive income elasticities, negative income elasticities
25. None of the above
26. Equilibrium in the money market will change if there is
27. A change in the real money supply
28. A change in real income
29. A change in competition in the banking industry
30. Any of the above
31. At the price of K900, tickets for the Blantyre Soccer derby are expensive. Yet, there are long lines of people who wish to buy them. Many people who desire tickets will not be able to find them." From this quote, we know that the price of Blantyre Soccer derby tickets must be:
32. Below equilibrium
33. Above equilibrium
34. Equal to equilibrium
35. None of the above

**SECTION B (40 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

1. Define the following types of profits
   1. Normal profits.
   2. Abnormal profits.
   3. Subnormal profits. *(6 marks)*
2. Briefly explain the **three** main functions of money. *(6 marks)*
3. Outline **four** functions of the Reserve Bank of Malawi in the financial industry.

*(8 marks)*

**(Total 20 marks)**

**QUESTION 3**

1. Malawi has used two regimes of exchange rates. Fixed and floating. Outline **two** advantages and disadvantages of each of the regimes for Malawi. *(8 marks)*
2. Briefly write short notes on the following
3. Spot exchange rate.
4. Forward exchange rate. (*6 marks)*
5. List down and explain any **three** fundamental factors that drive an exchange rate

*(6 marks)*

**(Total 20 marks)**

**QUESTION 4**

Mr. Phiri intends to acquire a used van and turn it into a mini bus. He will pay for the van from his gratuity which he got from his last employment. He intends to recruit a permanent driver and a conductor. The other main costs will be insurance, maintenance and fuel.

**Required:**

1. Identify **three** fixed and **three** variable costs in the scenario above.

*(6 marks)*

1. Briefly describe the difference between fixed cost and variable costs. *(4 marks)*
2. What is the law of diminishing marginal returns? Illustrate your answer with an aid of a diagram. *(5 marks)*
3. Describe why marginal product first rises then falls. *(5 marks)*

**(Total 20 marks)**

**QUESTION 5**

1. Explain **three** potential benefits of protectionism.  *(6 marks)*
2. Explain the Terms of Trade and its limitations. *(5 marks)*
3. There is a difference between import quotas and export subsidies as methods of trade protection. What is your preferred policy among the two methods? Give reasons to justify your answer. *(6 marks)*
4. Outline **three** measures that the Malawi Government has been using to reduce Balance of Payments deficit. *(3 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Governments in Malawi have at times set their targets on inflation figures. It still remains contentious whether such targets have been achieved. Give **two** advantages and **two** disadvantages of this approach to inflation control. *(8 marks)*
2. List with brief notes three economic policies that the Malawi Government has used to control inflation. *(6 marks)*
3. Briefly explain the **two** types of inflation below
4. Cost-push inflation
5. Demand-pull inflation. *(6 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**