**SECTION A: HAS 30 MULTIPLE CHOICE QUESTIONS**

Q1. Economics is

(A) the study of the markets for stocks and bonds

**(B) the study of choice under conditions of scarcity**

(C) exclusively the study of business firms

(D) applicable only when scarcity is not a problem

Q2. Devaluation of a currency will lead to which of the following?

(A) Appreciation of the currency

**(B) An increase in exports**

(C) An increase in imports

(D) A decrease in exports

Q3. Opportunity costs arise in production because

(A) resources are unlimited

**(B) resources must be shifted away from producing one good in order to produce another**

(C) wants are limited in society

(D) monetary costs of inputs usually outweigh non-monetary costs

Q4. In one hour, Chimwemwe can fix 4 flat tires or type 200 words. His opportunity cost of fixing a flat tire is

(A) 200 words

(B) 4 flat tires

(C) 1 word

**(D) 50 words**

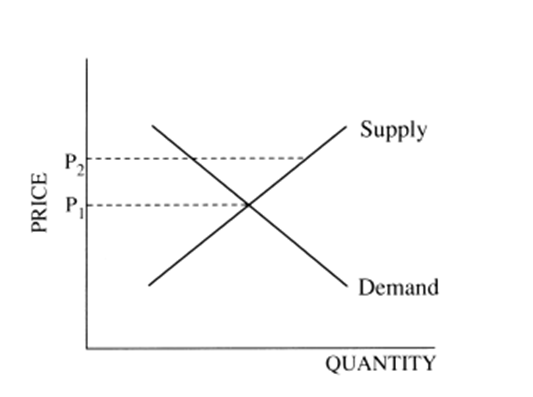
Q5. If the economy is producing a combination of goods inside its production possibilities frontier, then

(A) Workers are on vacation

(B) A significant number of workers have little education

**(C) Some resources are being wasted**

(D) Technology must improve before output can increase



Q6. The diagram above shows the demand and supply curves for a normal good.

The equilibrium price could rise from P1 to P2 if

(A) consumers’ incomes increased

(B) P2 were set as a legal maximum

(C) the price of complementary product increased

(D) costs of production were substantially lowered

Q7. As its output increases, a firm’s short-run marginal cost will eventually increase because of

(A) Diseconomies of scale

(B) Inefficient production

(C) A lower product cost

**(D) Diminishing returns**

Q8. Microeconomics deals with which of the following?

(A) the total output of an economy

(B) the measurement of a nation's inflation rate

**(C) how producers and consumers interact in individual markets**

(D) how tax policies influence economic growth

Q9. Due to a scarcity of resources,

(A) every society must undertake central planning

(B) the government must decide how to allocate available resources

(C) some members of each society must live in poverty

**(D) every society must choose among competing uses of available resources**

Q10. A perfectly elastic demand curve is

(A) upward sloping.

**(B) horizontal**

(C) vertical.

(D) downward sloping.

Q.11 If an economy's production possibilities frontier shifted to the right, this would illustrate

(A) increasing opportunity cost

(B) decreasing opportunity cost

(C) a fall in resource utilization

**(D) economic growth**

Q12. Which of the following would increase demand for a normal good? A decrease in

(A) Price

(B) Income.

(C) The price of a substitute.

**(D) The price of a complement.**

Q13. The fundamental theory of a firm is to maximize profits and in a profit maximization graph this occurs at the output where:

(A) Marginal Revenue is greater than Marginal Cost

(B) Average Revenue equals Average Total Cost

**(C) Marginal Revenue equals Marginal Cost (MC=MR)**

(D) Marginal Cost is lower than Marginal Revenue

Q14. Which one of the following is true regarding price elasticity of demand?

(A) It determines the relationship between price and taxes.

(B) It determines the relationship between supply and demand.

(C) It can be calculated by dividing price by supply.

**(D) It is a relationship between price changes and the responsiveness of consumers to those changes**.

Q15. What does a total revenue curve represent?

A. The relationship between prices and quantity supplied

B. The relationship between prices and units made

**C. The relationship between revenue and quantity sold**

D. An illustration of quantity demanded

Q16. If the marginal cost curve of a monopolist shifts up, which of the following will occur to the monopolist’s price and output?

**Price Output**

(A) Decrease Increase

(B) Decrease Decrease

(C) Increase Increase

**(D) Increase Decrease**

Q17. Suppose that the consumer price index rises from 100 to 200. From this information we may conclude that

(A) Each person’s real income changes by 200

(B) Consumer incomes are doubled

**(C) The prices in an average consumer’s market basket are doubled**

(D) All consumer goods prices are doubled

Q18. If the government of Malawi increases expenditures on goods and services or increases taxation, which of the following will occur?

(A) Aggregate demand will be unchanged

**(B) Aggregate demand will increase**

(C) The money supply will decrease

(D) The money supply will increase

Q.19 What is the difference between total utility and marginal utility?

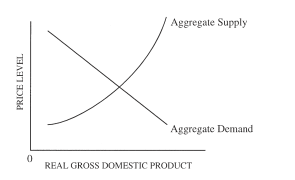
(A) Total utility is the average of both variable and marginal utility

**(B) Total utility describes the total satisfaction of a product while marginal utility describes the additional satisfaction gained from a product**

(C) Marginal utility describes the total satisfaction while total utility describes the additional satisfaction gained from a product

(D) Marginal and total utility have the same meaning

Question 20 refers to the following diagram



Q20. Based on the diagram above, what effect will an increase in the world supply of oil have on real gross domestic product and the price level?

**Real Gross**

**Domestic Product Price Level**

(A) Decrease Increase

(B) Decrease Decrease

(C) Increase Increase

**(D) Increase Decrease**

**SECTION B: HAS FIVE QUESTIONS**

**Answers**

**Question 2**

1. Explain the difference between microeconomics and macroeconomics. **(6 marks)**

**Microeconomics examines the individual parts of the economy, for example, the factors which determine the supply and demand of individual products or services.**

**Macroeconomics examines the economy as a whole, for example, the factors which determine the level of unemployment or the level of inflation.**

1. Give an example of a government **microeconomic** policy and explain how it might affect a firm. **(7marks)**

**Microeconomic policies might include: the imposition of a specific tax on a commodity; the decision to subsidise a commodity; the fixing of a maximum price or price ceiling. For example, the government’s decision to levy a specific tax will increase the market price of a product and, depending upon the price elasticity of demand for the product, will lead to a reduction in the volume and possibly the value of sales.**

1. Give an example of a government **macroeconomic** policy and explain how it might affect a firm. **(7 marks)**

**Macroeconomic policies might include: a change in the level of interest rates; a change in exchange rate; a change in the rate of corporation or income tax. For example, a government’s decision to revalue the currency would make all exports more expensive and thus make it difficult for a firm to maintain its share of an overseas market.**

**(Total 20 Marks)**

**Question 3**

1. Identify and explain the four factors of production, giving an example of **each**. **(8 marks)**

**Factors of production are inputs into the production of goods and services.**

**There are fore factors of production in total which are: Land. Labour, Capital, Enterprise/Entrepreneurship**

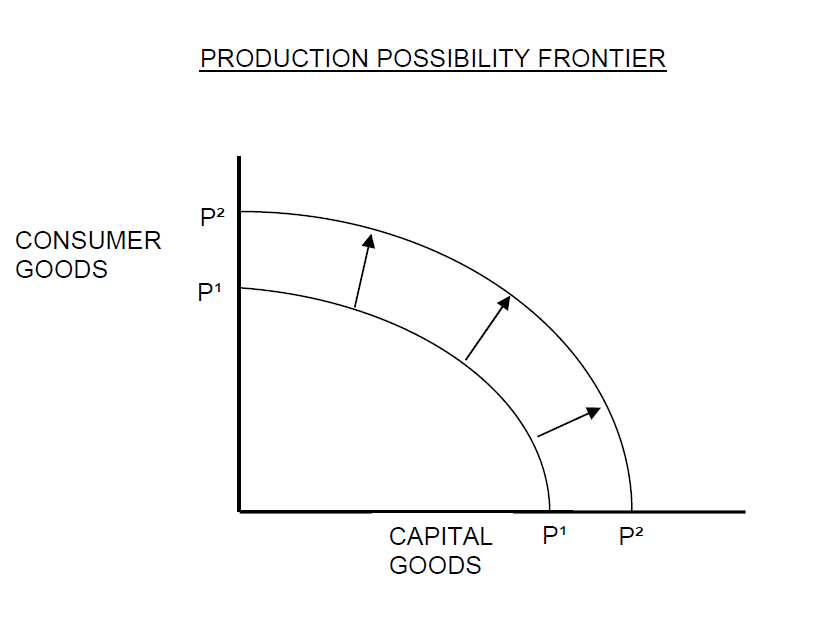
* **Land which includes all raw materials for example wood or copper;**
* **Labour which includes all forms of human input, both physical and mental, into human production;**
* **Capital which includes all inputs into production that have been themselves produced, for example, factories, machines and tools;**
* **Enterprise is the activity which combines the factors of production by the entrepreneur who takes both the risk and any associated profit.**

1. Draw a fully labelled Production Possibility Frontier diagram to illustrate the possible effect of an increase in the available factors of production on economic output.

**(7 marks)**

**5 Marks for a well labeled diagram**

**2 Marks for an explanation of an increase in the available factor of production that causes a shift of the PPC to the right**



1. Explain the circular flow income model **(5 marks)**

**This model represents the flows of money and goods and services in the economy. In the markets for goods and services, households purchase goods and services from firms, generating a flow of money to the firms and a flow of goods and services to the households. The money flows back to households as firms purchase factors of production from the households in factor markets.**

**(Total 20 marks)**

**Question 4**

1. List any **three** factors that influence our total demand for money balances **(3marks)**

* **Level of prices**
* **Level of interest rates**
* **Level of real national output (real GDP)**
* **Pace of financial innovation**

1. Identify **three** types of monetary policy. **(6 marks)**

* **Changes in interest rates;**
* **Changes in money supply**
* **Changes in exchange rate.**

1. Explain how **one** of the three types of monetary policy identified in **(a)** operates and discuss how changes in the policy might affect the profitability of a business. **(14 marks)**

**For example, a government might announce that their currency will formally be devalued. This means that the currency will now worth less in terms of another overseas currency. This will make exports cheaper and imports more expensive.**

**Businesses which rely heavily on overseas markets through exporting their products should see an increase in demand for their products this should enable them to expand their businesses, take on more labour and increase profitability. Good answers might point out that the overall positive effects will depend upon the price elasticity of demand for exports and the price elasticity of supply of exports.**

**Businesses which rely heavily on imported raw materials might however be worse off because their costs have risen, this might have a negative impact on profitability. Again additional marks will be gained for references to respective elasticities.**

**(Total 20 marks)**

**Question 5**

1. Distinguish between inflation and deflation. **(5 marks)**

**Inflation is a persistent rise in the average price level over a given time period. Deflation is a persistent fall in the average price level over a given time period.**

1. Discuss whether a business should be more concerned about either an inflationary situation or a deflationary situation. **(15 marks)**

**In an inflationary situation governments might raise interest rates; this will make it more expensive for firms to borrow for investment purposes therefore having a potentially negative effect on the growth of the business.**

**Higher borrowing rates might lead to less borrowing and spending by consumers thus leading to a fall in demand for the firm’s products.**

**Higher interest rates might produce short term capital inflows which might lead to an appreciating value of the domestic currency which might lead to a fall in demand for a firm’s exports. Rising prices will make it make it more difficult for businesses to sell exports. Inflation is also likely to lower levels of investment by companies due to uncertainty in relation to future real profitability.**

**Moderate inflation might enable some firm’s to increase profits due to prices rises reducing real wages.**

**A deflationary situation will be consistent with falling demand and a subsequently negative effect on business profits.**

**Negative growth and rising unemployment will promote negative expenditure regarding investment with a subsequent negative effect on long term profitability.**

**A fall in consumption will produce a downward negative multiplier effect which will further reduce demand for a firm’s products. However, falling prices might enable some firms to sell more exports and benefit accordingly. Government policy might lead to lower interest rates and therefore reduce the cost of borrowing (Total 20 marks)**

**Question 6**

1. Distinguish between a quota and an embargo. **(5 marks)**

**Quotas are restrictions on the quantity of a good that a country can import.**

**An embargo is a total ban on imports or exports.**

1. Explain why some businesses might support a government’s decision to introduce barriers to trade and why other businesses would not support such a decision. **(15 marks)**

**Businesses might support trade barriers because:**

**• they prevent ‘dumping’**

**• they help infant industries to grow**

**• they might protect jobs within the company**

**• they might help to maintain sales and/or profits**

**Businesses might not wish to support trade barriers because:**

**• the price of imported raw materials might rise**

**• they might face the threat of retaliation and the loss of overseas markets**

**• they might lose the opportunity to benefit from economies of scale**

**• the barriers might promote and support less efficient rivals.**

**(Total 20 marks)**