

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

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

**Date: Tuesday, 6th May 2014**

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

**INSTRUCTIONS TO CANDIDATES**

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

2 Section A consists of 20 multiple choice 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 in Section B.

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

**SECTION A (40 MARKS)**

Answer **ALL** questions from this section.

1. There are 10 workers that are looking for a job but they are already in employment somewhere else. This type of unemployment is
2. Frictional
3. Cyclical
4. Turnover
5. Structural
6. The following are advantages of a progressive tax except
7. It enables government to redistribute wealth
8. The tax is levied according to the ability of the individual to pay
9. It helps to counterbalance regressive tax, such as indirect taxes and this makes the tax system fair
10. It is used mainly in the borders therefore it is fair to the people who bring goods to the country and who pay tax at the boarders.

**Answer the 2 questions that follow from the information given in the table below:**

|  |  |  |
| --- | --- | --- |
|  | Ground nuts | Maize |
| Malawi | 12 | 15 |
| Zambia | 5 | 12 |

1. What is the opportunity cost of producing ground nut for Zambia with respect to maize
2. 0.8
3. 2.4
4. 0.42
5. 0.63
6. For Malawi, what is the opportunity cost of producing maize with respect to ground nuts
7. 1.25
8. 1.50
9. 2.40
10. 0.625
11. If a 300% rise in price of petrol was announced on the radio, this can cause
12. Expansion and deflation
13. Inflation and recession
14. Inflation and expansion
15. Recession and disequilibrium
16. If Toyota Malawi substantially reduced the prices of its most expensive cars, the demand curve for its vehicles would
17. Shift leftward
18. Shift rightward
19. Remain the same
20. Become steeper than before
21. An equilibrium is a situation where
22. There are no more monopolistic traders in the market
23. Demand curves are perfectly horizontal
24. Supplier will supply any amount and quality that a buyer wants
25. Neither buyer nor sellers want to change their behaviour
26. International dumping may involve
27. Selling goods to foreigners at the price below the cost of production
28. Sending cheap goods to another country and selling it at less than the domestic prices
29. Charging taxes to the importers of the goods in order to discourage the dumping
30. All of the above.
31. As a consumer of text books in Malawi, you are called price takers when
32. You can not affect the market price
33. There is excess demand in the market
34. You can set the market price
35. It is difficult to agree on the equilibrium price of the text books.
36. This is characteristic of oligopoly market structure
37. It has a few producers and a few consumers
38. If it were to cut its price, it would be matched by its competitors in the market
39. There are large numbers of producers and consumers
40. The oligopolistic demand conceded with the market demand
41. The government of Malawi is dependent on aid to finance its budget. The following is true about the national debt of the country
42. The money borrowed is 100% spent on medicines and making tarred roads in the capital city
43. If all the money borrowed is spent on infrastructure only, GDP would rise immediately
44. If the money borrowed is spent in ways that increase economic capacity, it would result in a drop of the national debt to GDP ratio
45. If the money borrowed was used to pay civil servants allowances, productivity would increase by 75%
46. Given the following figures all in Million Kwacha:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| National Income | Taxes | Consumption | Investment | Government expenditure | Disposable income |
| 200 | 100 | 125 | 25 | 100 | 100 |
| 300 | 100 | 200 | 25 | 100 | 200 |
| 400 | 100 | 275 | 25 | 100 | 300 |
| 500 | 100 | 350 | 25 | 100 | 400 |
| 600 | 100 | 425 | 25 | 100 | 500 |

What is the equilibrium real GDP (equal to National Income)

1. MK300 million
2. MK400 million
3. MK 500 million
4. MK750 million
5. The Phillips Curve explains the relationship between
6. The Keynesians motives of keeping wealth
7. Savings and Investments
8. Unemployment rates and recession
9. Unemployment and the inflation rate
10. If the price elasticity of demand for a good is less than one, we say that the consumer of this good is
11. Not very sensitive to price
12. Not very sensitive to quantity demanded
13. Very sensitive to price
14. Is elastic
15. High Income people will sometimes pay higher prices for goods like fruits at higher priced convenient store like (Shoprite) that are also available at cheaper crowded stores or the crowded market. This is done because
16. They are just proud and want to show off
17. Their opportunity cost of time is low
18. The markets and low priced shops impose higher time costs to them
19. They are irrational
20. All of the following are trade problems of poor countries except
21. Improving terms of trade
22. Limited access to markets of developed countries
23. Unstable export markets
24. Poor quality of products
25. An Embargo is
26. A conditionality for developing countries to trade with developed countries
27. A managed quantity of exported goods
28. A tax imposed on imported goods
29. A total ban on trade
30. A country which is wishing to reduce its current account deficit would
31. Reduce government taxes
32. Decrease domestic consumption spending
33. Increase government spending
34. Increase private investment spending
35. In trade Absolute Advantage is determined by
36. Actual differences in labour productivity between 2 trading countries
37. The relative differences in labour productivity between countries
38. The difference in resources that can be traded between the 2 countries
39. The ruling regime of the 2 countries and their friendship
40. The following are benefits arising from proprietorship, except
41. The owner has complete control of the business
42. There is little legal complications in starting a business
43. There are unlimited liabilities for the debt of the business
44. The profits are taxed under personal income

**SECTION B (60 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

1. List **three** examples of withdrawals and **three** examples of injections in the circular flow of income. (6 Marks)
2. State **four** difficulties of calculating national income. (4 marks)
3. With the aid of a diagram, explain how an increase in government expenditure can increase inflation. (10 marks)

**(Total 20 marks)**

**QUESTION 3**

1. What is the gold standard? (4 marks)
2. Explain **three** monetary policy tools and how they can be used in an expansionary policy initiative (12 marks)
3. State four functions of money (4 marks)

**(Total 20 marks)**

**QUESTION 4**

1. The table below shows production costs for Mundinva and Sons Company. Study it and answer the questions that follow

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Units of labour | Output | Variable costs | Fixed costs | Average cost |
| 1 | 80 | 100 | 200 | 3.75 |
| 2 | A | 150 | 200 | 2.916667 |
| 3 | 150 | B | 200 | 3.333333 |
| 4 | 200 | 250 | 200 | C |
| 5 | 120 | 200 | D | 3.333333 |
| 6 | 100 | 200 | 200 | E |
| 7 | 75 | 150 | 200 | 4.666667 |

1. Calculate the values for A, B, C, D ,E (5 marks)
2. Explain what the law of diminishing returns says. (3 marks)
3. At what level does the firm start experiencing this law? (3 marks)

(b) It is very rare for diseconomies of scale to be experienced. However, they are experienced. What factors may contribute to diseconomies of scale in production.

(9 marks)

**(Total 20 marks)**

**QUESTION 5**

1. What does the principle of comparative advantage say? (4 marks)
2. What **three** things do countries gain from international trade? (6 marks)
3. Explain **five** things that the government of Malawi could do to restrict international trade between Malawi and neighbouring countries (10 Marks)

**(Total 20 marks)**

**QUESTION 6**

1. Explain **three** Keynesian motives why people hold wealth in form of money (9 marks)
2. List **five** disadvantages of barter trade. (5 marks)
3. Explain **three** advantages of storing money electronically in a card (6 marks)

**(Total 20 marks)**

**END OF EXAMINATION PAPER**