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**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

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

**Date: Tuesday, 5th November 2013**

**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 20 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 **Please write your examination number and not your student number on each answer book used. Answer books without examination numbers will not be marked.**

6 Begin each answer on a new page.

7 Please write your examination number on each answer book used.

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

**SECTION A (40 MARKS)**

Answer **ALL** questions from this section.

1. If Malawi is said to be an open economy it means that the country
2. Has flexible exchange rates
3. Is no longer a communist state
4. Conducts trade with other nations
5. Has fixed exchange rates aligned to the dollar .

The City Assembly has decided to put up Christmas Lights in the main cities of Lilongwe, Mzuzu and Blantyre during Christmas festivities. Most passer-by’s exclaim that the display is beautiful. Now the Assembly authority is stopping all vehicles getting into the city to get them to pay K50 towards the cost of putting up the lights. Answer the 2 questions that follow.

1. The residents are refusing to pay the K50 on the basis that;
2. The lights are too bright that they will eventually make the residents blind by 2015.
3. It is a form of pollution to the main cities mentioned.
4. You cannot prevent them from consuming the good even if they did not decide on having it picked out.
5. The Mayors are too ambitious and politically linked hence the motive was not to service the residents but the politicians in the area

1. One economic commentator is arguing that these lights are a luxury to the already strained economy hence their elasticity is
2. >+1
3. =1
4. <+1
5. =-1

**NOTE:** Use the following information to answer questions 4 and 5.

Mrs Nsanje goes to Tanzania every 3 months to order shoes which she sells in Chilobwe Township.

1. A tax of 25% per pair of shoe that she orders from Tanzania would be an/a:
2. Capital gains tax
3. Ad valorem tax
4. Annual tax
5. Income tax.
6. If the government of Malawi decides to introduce a quota on shoe imports, they will probably be checking on ……………. upon entry into Malawi.
7. Amount of Kwachas Mrs Nsanje will bring back with her into the country.
8. Amount of dollars in her handbag.
9. The difference between the amount of dollars she carried and the balance that is remaining in her hand bag.
10. The number of shoes in her bags.

Study the diagram below and answer the questions that follow

Output

Actual output

A

C

B

Time

1. In a closed economy, Injections include
2. Investments, savings and exports
3. Government spending and investments
4. Investments, exports and government spending
5. Taxation, imports and savings.
6. John has worked for D&G Company to join Secco Computer Centre after searching for a better job than the one he had. It took 2 months for John to get the job at Secco. The unemployment that John experienced is:
7. Frictional unemployment
8. Seasonal unemployment
9. Structural unemployment
10. Technological unemployment.
11. Natural Rate of Unemployment is:
12. The rate where the number of jobs equals the number of people seeking work
13. The rate at which government is willing and able to employ school leavers who are seeking jobs
14. It is the rate that National statistical office uses to advise government on policy measures to be undertaken in a given year
15. The rate at which industrial jobs are available to people who have got skills and certificates in particular jobs.
16. When different countries agree to impose common external tariffs, eliminate barriers to movement of labour and capital and; eliminate tariffs on each other, they have probably formed what is known us
17. Free trade area
18. Common market
19. Customs union
20. Economic union.
21. The following except one were the reasons why countries were asked to do structure adjustment in the 1980’s;
22. To increase efficiency of the public sector
23. To promote competition in the market
24. To promote free trade
25. To increase the flexibility of IMF control in developing states.
26. The Black Missionaries Band are coming to Lilongwe. Sheila is a fun and she is considering of attending the show. The ticket for the show is K3500; the cost of a minibus from Salima is K2000. At the same time, Sheila is scheduled for a shift at Galittos Restaurant for 5 hrs at K60 per hour as the wage rate. Her opportunity cost of attending the show is:
27. K3500
28. K5500
29. K8500
30. K3000.
31. The government of Malawi has noted that many teenage students are indulging in alcohol because of the introduction of sachet packed liquor. The Ministry of health has therefore announced the ban on advertisement of the sachet liquor. The ban will result in;
32. A rightward shift in demand curve for television advertisement time
33. A rightward shift in the demand curve for the sachets
34. A leftward shift in the demand curve for the sachets
35. No change for either sachet sales or television advertisement.
36. Discount window lending is
37. Loan which comes inclusive of a discount in the interest rates
38. Loan that commercial banks will normally seek from Reserve Bank of Malawi to improve on their liquidity
39. Loan which is provided to the Reserve Bank of Malawi by the IMF
40. Loan that the government gets from individual and the private sector to improve balance of payments
41. Given that for Phil Collins Corporation in Malawi, Marginal costs are US$ 700 and Total Costs are US$ 1000 for a certain output. The average fixed cost should be
42. US$ 300
43. US$ 1700
44. US$ 1.43
45. not possible to determine with the information given.
46. In perfect competition, the existence of profits in the short run is weak because
47. Prices will fall since market supply will increase
48. Costs will certainly increase and eliminate profits
49. Firms are forced to increase output in the short run until when average total costs equals price
50. Firms are forced in the short run to reduce output until average total costs equals price.
51. The conditions that are necessary for a firm to be able to practice price discrimination include
52. Segmented markets
53. Different price elasticity of demand between the segments
54. Inability of consumers to transfer products
55. All of the above.
56. The balance of payments in Malawi will improve in the short run following the depreciation of the Kwacha if;
57. The government listens to all the advice that the civil societies will give them
58. The sum of demand elasticities is greater than one
59. A lot of Chinese investors come and explore investment opportunities in the country
60. The country becomes a member of all trade unions in the country.

Given the table below, please answer questions 18 and 19 that follows

|  |  |  |  |
| --- | --- | --- | --- |
| **No.** | **Quantity demanded KGs** | **Price (MK)** | **Quantity supplied KGs** |
| 1 | 400 | 60 | 320 |
| 2 | 350 | 80 | 300 |
| 3 | 300 | 100 | 280 |
| 4 | 200 | 120 | 200 |

1. What is the market equilibrium, price and quantity
2. MK200 and 200KGs
3. MK120 and 200 KGs
4. MK 60 and 400KGs
5. MK100 and 300 KGs
6. If the quantity supplied was increased by 20KGs at each price level, what will the new equilibrium price and quantity be
7. MK80 and 300KGs
8. MK120 and 200KGs
9. MK80 and 340KGs
10. MK100 and 300KGs
11. Which statement is true about factors that affect supply of a product
12. Changes in income, changes in number of producers and changes in cost of production
13. Changes in tastes and preference, change in income and future expectations on price
14. Changes in cost of production, introduction of new technology and changes in number of producers
15. Changes in expected future prices changes in income and changes in price of related goods

**SECTION B (60 MARKS)**

**Answer ANY THREE** questions from this section

**QUESTION 1**

1. Briefly define the term “**Investment”** and state **two** determinants of Investment?

*(4 marks)*

1. Explain **four** things the government can do to encourage Investment in the country. *(10 marks)*
2. Briefly explain the **three** Pre-Keynesian theories of the trade cycle in terms of investment

*(6 marks)*

**(Total 20 marks)**

**QUESTION 2**

Following a 40% devaluation announced in the country, transportation business owners decided to increase the local bus fares in the country. Some commentators have argued that this action could lead into inflation.

1. With the aid of a diagram, explain the type of inflation these people are referring to. *(10 marks)*
2. What do you understand by the term “devaluation”? *(2 marks)*
3. Explain **two** negative and **two** positive impacts of devaluation of a local currency. *(8 marks)*

**(Total 20 marks)**

**QUESTION 3**

An international food corporation KFC has opened doors in the country. Many Malawians were excited about the opening of the restaurant.

1. What does the term “corporation stand for”? *(2 marks)*
2. State **two** disadvantages of operating a corporation. *(4 marks)*
3. In what market structure is KFC in Malawi? Briefly explain your answer.

(*4 marks)*

1. With the aid of a diagram, explain the short run equilibrium of KFC in Malawi. *(10 marks)*

**(Total 20 marks)**

**QUESTION 4**

The Reserve Bank of Malawi (RBM) usually embarked on some monetary policy measures. Assume that one of them is to reduce short term interest rates from 36 to 25%.

1. Distinguish between real and nominal interest rates. *(6 marks)*
2. Explain the relationship between investment and interest rates *(5marks)*
3. Besides interest rates, what other **three** forms of monetary control does the government through the RBM use to control money supply? *(9 marks)*

**(Total 20 marks)**

**QUESTION 5**

1. Mention the difference between cost push inflation and demand pull inflation. *(4 marks)*
2. Explain **three** factors that may shift the demand curve to the right. *(6 marks)*
3. Briefly explain **five** characteristics of a perfect competitive market economy.

*(10 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**