

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

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

**Date: Tuesday, 14th November 2017**

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

**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)**

Answer **ALL** questions from this section by circling the right answers in the answer sheet provided.

1. What is the most basic economic issue for all societies?
2. Scarcity
3. Taxation
4. Inflation
5. Recession
6. Cigarettes have been used as money in exceptional circumstances.

What is the most likely reason that they are not acceptable as money in normal circumstances?

* 1. Cigarettes lack durability
  2. Cigarettes lack intrinsic value
  3. Cigarettes lack portability
  4. Cigarettes lack uniformity

1. Tina has enough money to buy either a weave or to go to a show with her friends. In economics, what is the choice that Tina “gives up” called?
2. Positive cost
3. Negative cost
4. Opportunity cost
5. Marginal cost

1. What is the main idea behind the study of economics?
2. Monetary policy
3. Efficiency of production
4. Allocation of scarce resources
5. Business decisions

1. In every economic system, what must people choose to do?
2. Satisfy all the wants of their society
3. Make the best use of scarce resources
4. Create an equal distribution of income
5. Save money to reduce the national debt
6. In a market economy, what determines the price and quantity of most goods produced?
7. Substitute goods
8. Supply and demand
9. Economic policies
10. Quality of goods

1. What is the most likely to happen when consumers want to buy more bicycles than the store has available for sale?
2. Profit on bicycle sales will be smaller.
3. Price of the bicycle will increase.
4. Manufacturers will stop making it.
5. Stores will make a different model.
6. Assume the government subsidizes the production of a good every year. Which of these would be the most likely result if that government stopped the subsidies?
7. Increase in the number of producers
8. Better selection of products
9. Increase in the price of products
10. Better wages for workers
11. Which factor will decrease the demand for a product?
12. Increased popularity of a product
13. A decrease in the number of buyers
14. A decrease in the price of a complementary good
15. An increase in the price of a substitute good
16. Wanderer’s tickets are sold out every year in spite of price increases. Therefore, Wanderer’s tickets are which of the following?
    1. Elastic
    2. Equilibrium
    3. Inelastic
    4. Trade off
17. Which financial instrument is the most “Liquid?”
    1. Checks
    2. Bonds
    3. Cash
    4. Savings accounts

Study the table below and then answer the following question.

**TAX TABLE**

|  |  |
| --- | --- |
| **Income** | **Percentage Tax Rate** |
| K0 – K20,000 | 0 |
| K20,001 – K25,000 | 15 |
| K25,001 and above | 30 |

1. What of the following is described in the above tax table?
2. A progressive income tax
3. A flat tax on income
4. A regressive income tax
5. A value added tax on income
6. Which of the following would result in a decrease in consumer spending?
7. Increasing income taxes
8. Decreasing the reserve requirement
9. Increasing government spending
10. Decreasing the interest rate

1. Which of these best reflects how the government attempts to manage the economy through fiscal policy?
2. Controlling interest rates
3. Controlling the money supply
4. Taxing and spending
5. Buying and selling securities
6. What happens when a country’s money supply increases faster than the goods and services it produces?
   1. Inflation
   2. Unemployment
   3. Equilibrium
   4. Stability
7. Which of these does the Gross Domestic Product (GDP) represent?
8. The amount of reserve funds that banks are required to hold
9. The rate of interest charged on reserve funds lent to banks
10. The total value of finished goods and services produced in a year
11. The change in the average price of consumer goods and services
12. Which of the following government actions is designed to decrease inflation?
13. Hire more government employees
14. Decrease federal income tax
15. Reduce the money supply
16. Increase government spending

Read the excerpt below, then answer the question which follows.

“If a foreign country can supply us with a [product] cheaper than we ourselves can make it, better buy it [from] them…” Adam Smith*, The Wealth of Nations,* 1776

1. Which of these is an economic benefit of tariffs on goods imported into Malawi?
2. Prices of goods made in Malawi will decrease.
3. Malawian businesses will attract more imports from other nations.
4. Malawian businesses will have less competition from foreign companies.
5. Competition among producers in Malawi will remain the same.
6. When a nation imports more than it exports, economists say it has which of the following?
7. A trade surplus
8. A balance of trade
9. A trade deficit
10. A national debt

1. If Great Britain has a comparative advantage over France in the production of cars, which of the following is true?
2. Britain and France should not trade.
3. Britain should export cars to France.
4. France should export cars to Britain.
5. Neither Britain nor France will gain from trade.

**SECTION B (60 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

1. Give **fou**r roles of government. *(4 marks)*
2. Provide **four** reasons why government would encourage protectionism. *(4 marks)*
3. Explain how VAT would affect the supply curve. Include a diagram to show demand and supply before the tax and after the tax. Clearly indicate government revenue.

(12 *marks)*

**(Total 20 marks)**

**QUESTION 3**

1. What is the type of exchange rate system used in Malawi? Mention **two** characteristics of this type of exchange rate system. *(5 marks)*
2. Describe **four** fundamental factors that drive an exchange rate. *(8 marks)*
3. With the aid of a diagram, describe the effect of a reduction in exports on the demand for Kwachas in a floating exchange rate system. *(7 marks)*

**(Total 20 marks)**

**QUESTION 4**

One aim of government economic policies is balance of payments stability. Whether a country has a deficit or a surplus in its current account is influenced by a number of factors, including its exchange rate and interest rates in the economy.

1. Describe **three** aims of government economic policy, other than balance of payments stability. *(6 marks)*
2. Explain why a country may have a trade in goods (visible trade) deficit but still have a current account surplus in its balance of payments. *(4 marks)*
3. Explain **five** reasons why interest rates exist. (*10 marks)*

**(Total 20 marks)**

**QUESTION 5**

Malawi is under the Extended Credit Facility (ECF) programme under the International Monetary Fund (IMF).

1. Explain the purpose of the IMF and why it was established. *(5 marks)*

1. What is the World Bank, its functions and what are the arguments in support of and against the organization. *(15 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Discuss the income elasticity of demand for luxury goods. *(4 marks)*
2. Explain the concept of price elasticity of supply. (*5 marks)*
3. List the **five** factors which determine the value of price elasticity of demand.

(*5 marks)*

1. Explain perfect elasticity of supply. Include a diagram. *(6 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**