

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

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

**Date: Tuesday, 15th May 2018**

**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. Which of these actions would most likely result in a decrease in consumer spending?
2. Increasing income taxes
3. Decreasing the interest rate
4. Increasing government spending
5. Decreasing the reserve requirement.
6. If Tanzania has a comparative advantage over Malawi in the production of maize flour, which of the following is true?
7. Tanzania and Malawi should not trade.
8. Tanzania should export maize flour to Malawi.
9. Malawi should export maize flour to Tanzania.
10. Neither Malawi or Tanzania will gain from trade.
11. What is the primary incentive that motivates a manufacturer to sell a product?

a) Making profits on sales

b) Putting others out of business

c) Pleasing the government

d) Reputation of the product

1. What is the additional cost of undertaking some activity?
2. Marginal cost
3. Marginal benefit
4. Fixed cost
5. Variable cost
6. Which statement is correct?
7. Inferior goods have a good income elasticity of demand
8. Inferior goods have a perfect income elasticity of demand
9. Inferior goods have a positive income elasticity of demand
10. Inferior goods have a negative income elasticity of demand
11. What is the formula for calculating Total Revenue?
12. Price ÷ Quantity Sold
13. Price × Quantity Sold
14. Price × Revenue
15. Price ÷ Revenue.
16. Which of these is not a factor of production?
17. Land
18. Labour
19. Capital
20. Inputs
21. In economics, the ability to produce a product or service at a lower opportunity cost than another party is knows as:
22. Absolute Advantage
23. Special Advantage
24. Comparative Advantage
25. Complete Advantage
26. What is a persistent increase in average level prices known as?
27. Deflation
28. Inflation
29. Hyperinflation
30. Recession
31. Given that fixed cost =10 and output = 2; calculate the average fixed cost?
32. 20
33. 5
34. 10
35. 8
36. Given that Price per unit =4 and Quantity sold = 12. Calculate Total Revenue.
37. 3
38. 12
39. 48
40. 4
41. At which point does breakeven output occur?
42. Marginal Revenue = Marginal Cost
43. Average Revenue = Average Total Cost
44. Average Revenue
45. Marginal Revenue = 0
46. What organization controls monetary policy in Malawi?
47. Reserve Bank of Malawi
48. Ministry of Finance
49. World Bank
50. IMF
51. Which of these best explain why Malawi might place tariffs on imports?
52. To cause the price of goods made in Malawi to decrease
53. To promote trade between Malawi and other countries
54. To encourage consumers in Malawi to buy Malawian products
55. To increase the variety of products that are available in Malawi.
56. When a nation imports more than it exports, it means there is:
57. A trade surplus
58. A balance of trade
59. A trade deficit
60. A national debt
61. Which of these is usually a result of free trade between economies?
62. More tariffs on goods
63. Higher tariffs on goods
64. More goods in the market
65. Fewer goods in the market
66. Which one of the following statements is not a function of money?
67. Money makes it easier to save.
68. Money makes trading goods and services easier.
69. Money acts as a unit of account.
70. Money holds its value well in times of inflation
71. Which of the following is included in M1?

a) Gold

1. Credit Cards

c) Checkable Deposits

d) Money Market

1. According to the theory of comparative advantage, a good should be produced at the point where:
2. Its explicit costs are least.
3. Its opportunity costs are least.
4. The cost of real resources used is least.
5. Production can occur with the lowest increase in employment.
6. Which of the following is true of the concept of increasing opportunity cost?
7. It is unimportant in command economies because of central planning.
8. It suggests that the use of resources to produce a set of goods and services means that as more of one is produced, some of the other must be sacrificed.
9. It is irrelevant if the production possibilities curve is convex to the origin.
10. It suggests that unlimited wants can be fulfilled.

**SECTION B (60 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

1. With an aid of a diagram, explain the Production Possibility Frontier? *(6 marks)*
2. What can be learnt from the Production Possibility Frontier in terms of efficiency, scarcity, opportunity cost and choice*? (12 marks)*
3. What is the main issue the Production Possibility Frontier fail to show? *(2 marks)*

**(Total 20 marks)**

**QUESTION 3**

1. Define a proprietorship. (2 marks)
2. Give **two** advantages and **two** disadvantages of a proprietorship? *(8 marks)*
3. Define a corporation. *(2 marks)*
4. Give **two** advantages and **two** disadvantages of a corporation*? (8 marks)*

**(Total 20 marks)**

**QUESTION 4**

1. What is the difference between demand and quantity demanded? *(4 marks)*
2. Why does the demand curve slope downwards? *(2 marks)*
3. Using the given table, draw a properly labelled diagram showing at which price equilibrium occurs. *(8 marks)*

|  |  |  |
| --- | --- | --- |
| **Quantity Demanded** | **Price** | **Quantity Supplied** |
| 2 | 10 | 8 |
| 4 | 8 | 4 |
| 6 | 6 | 3 |
| 10 | 2 | 2 |

1. List **six** things that can cause an upward shift in the demand curve. *(6 marks)*

**(Total 20 marks)**

**QUESTION 5**

1. What is microeconomics? *(4 marks)*
2. In microeconomics, what is economies of scale and what impact does it have on LRAC and SRATC? *(10 marks)*
3. What **three** factors do management theorists often point to as causes of diseconomies of scale? *(6 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. What is fiscal policy? (2 marks)
2. Describe crowding out in relation to fiscal policy. *(6 marks)*
3. What are open market operations and what is the function of open market operations?*(6 marks)*
4. Why do developing countries have difficulties in operating monetary policy effectively? *(6 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**