

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

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

**Date: Tuesday, 24th November 2020**

**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 market structure symbolizes the existence of ‘few sellers’?**
2. **Oligopoly**
3. **Monopoly**
4. **Monopolistic competition**
5. **Perfect competition**
6. **What is the name of the curve that shows the alternative combinations of goods that can be produced when available resources are used fully and efficiently?**
7. **Elasticity Curve**
8. **Demand curve**
9. **Indifference curve**
10. **Production Possibility Frontier**
11. **Chikondi sells cell phone covers at a price of K2,000 each. On Monday, he sold 5 covers. How much is the total revenue Chikondi made?**
12. **K5,000**
13. **K2,000**
14. **0**
15. **K10,000**
16. **What is the correct definition of returns to scale?**
17. **How a firm’s output responds to a change in factor inputs.**
18. **How a firm’s inputs change to respond to a change in output**
19. **How a firm’s output responds to a change in price**
20. **A measure of inflation**
21. **Which of the following is NOT a type of fiscal policy?**
22. **Expansionary fiscal policy**
23. **Contractionary fiscal policy**
24. **Neutral fiscal policy**
25. **Hyper fiscal policy**
26. **Which of the following is a macroeconomic topic?**
27. **why doctors earn more than teachers**
28. **the reasons for the rise in average prices**
29. **whether the army should buy more tanks or more guns**
30. **the reasons for a rise in the price of frozy**
31. **Which of the following is a microeconomic topic?**
32. **the reasons for a decline in average prices**
33. **the reasons why Dalitso buys less frozy**
34. **the cause of why total employment may decrease**
35. **the effect of the government budget deficit on inflation**
36. **When the government chooses to use resources to construct a road, these sources are no longer available to build a stadium in Kasungu. Which concept does this choice illustrates?**
37. **a market mechanism**
38. **a fallacy of composition**
39. **opportunity cost**
40. **macroeconomics**
41. **What term describes an economic system characterised by public ownership of resources and centralised planning?**
42. **Command economy**
43. **Capitalist economy**
44. **Micro Economy**
45. **Global economy**
46. **What measures the magnitude by which consumers change the quantity demanded in response to a change in the price of the product?**
47. **Elasticity**
48. **Price elasticity of demand**
49. **Price elasticity of supply**
50. **Perfect inelasticity**
51. **When the price elasticity of demand is equal to 1, that good has what type of elasticity?**
52. **Perfectly elastic**
53. **Unit elasticity**
54. **Perfectly inelastic**
55. **No elasticity**
56. **Which of the following is the correct formula for calculating the price elasticity of supply?**
57. **Percentage change in quantity supplied/percentage change in demand**
58. **Percentage change in quantity demanded/percentage change in quantity supplied**
59. **Percentage change in factors of production/percentage change in price**
60. **Percentage change in quantity supplied/percentage change in price**
61. **What is the name of the negative slope of the indifference curve?**
62. **Marginal utility curve**
63. **Negative indifference curve**
64. **Negative utility curve**
65. **Marginal rate of substitution**
66. **Limbe Cement Company had K1,000,000 as its fixed costs (TFC) in January 2019 and 500 cement bags as output (Q). What is the average fixed cost for the company?**
67. **K500,000,000**
68. **K20,000**
69. **0.0005**
70. **K2,000**

1. **What is the relationship between the rate of interest and the speculative demand for money?**
2. **There is an inverse relationship between the rate of interest and the speculative demand for money**
3. **There is a positive relationship between the rate of interest and the speculative demand for money**
4. **There is no relationship between the rate of interest and the speculative demand for money**
5. **There is a weak relationship between the rate of interest and the speculative demand for money**
6. **The real interest rate, which measures the purchasing power of interest receipts, is calculated by adjusting the nominal rate charged to take effect into what?**
7. **Inflation**
8. **Foreign currency**
9. **Government borrowing**
10. **GDP**
11. **Which of the following refers to an exchange rate that is quoted and traded today but for delivery and payment on a specific future date?**
12. **Spot rate**
13. **Forward rate**
14. **A Currency board**
15. **Swap rate**
16. **Which of the following is a fundamental factor which drives an exchange rate?**
17. **Spot rate**
18. **Factors of production**
19. **Change in income**
20. **Inflation**
21. **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is specialization in goods and services one can produce at a low cost makes it possible for trading partners to produce a larger joint output?**
22. **the law of comparative advantage.**
23. **the law of absolute advantage.**
24. **the law of production possibilities.**
25. **the law of demand.**
26. **In a free market economy, consumption and investment decisions**
27. **are controlled largely by the government.**
28. **shape the future course of the national economy.**
29. **are necessarily controlled by big businesses.**
30. **require protection from foreign forces if individuals desire wealth accumulation.**

**SECTION B (60 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

1. What are **two** important roles that households have in the economy? *(4 marks)*
2. Using a diagram, define equilibrium. *(8 marks)*
3. What are the **four** alternatives to the market as a way of allocating a scarce good?  *(8 marks)*

**(Total 20 marks)**

**QUESTION 3**

1. Daniel takes his date Misozi to a restaurant in Blantyre and they receive terrible service. They leave the restaurant without saying anything to the waiters or to the management of the restaurant.

**Required**

What is the importance of consumer feedback in this case? *(4 marks)*

1. Define an interest rate? *(4 marks)*
2. Describe the **four** properties of the indifference curve. *(12 marks)*

**(Total 20 marks)**

**QUESTION 4**

1. Universal Limited uses equipment such as machines in making their products.

**Required**

If they decided to increase output, how will this affect their average fixed costs?

*(4 marks)*

1. Describe the **three-step** process in which an increase in money supply affects the economy and leads to a rise in real GDP. *(6 marks)*
2. Describe two alternatives to price maximization theory. *(10 marks)*

**(Total 20 marks)**

**QUESTION 5**

1. Define hyperinflation and include an example of a country which has experienced hyperinflation. *(4 marks)*
2. List **four** characteristics of firms in a perfectly competitive market. *(8 marks)*
3. Lafarge Company has seen an increase in demand for its products and wants to expand its scale of operations.

**Required**

Advise Lafarge **four** ways in which they can use economies of scale. *(8 marks)*

**(Total 20 marks)**

**QUESTION 6**

Discuss deflation and the different types of deflation. How can monetary policy control deflation?  **(Total 20 marks)**

**END OF THE EXAMINATION PAPER**