

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

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

**Date: Tuesday, 18th November 2014**

**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 choice questions, each question carries 2

marks. Answer **ALL** questions.

3 Section B consists of 6 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 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.

1. If supply is elastic:
2. A rise in price causes a rise in production.
3. Arise in price causes a fall in production.
4. A rise in price leaves total production unchanged.
5. None of the above.
6. None of the following is true about the law of diminishing marginal returns except that:
7. As we add more units of the variable input to fixed amounts of land and capital, the change in output will first rise, then fall.
8. As we add more units of variable costs to fixed amounts of land and capital, the change in output falls.
9. As we add more units of the variable costs to fixed amounts of land and capital, the change in output will first remain constant, then falls.
10. As we add more units of variable costs to fixed amounts of land and capital, the opportunity cost of labour falls.
11. A production possibility frontier is a curve that shows alternative combinations of goods that can be produced when available resources are used fully and efficiently. Resources are said to be employed fully and efficiently when:
12. The budget constraint is a straight line.
13. There is no change that could increase the production of one good without decreasing the production of the other good.
14. The opportunity cost of producing one good is zero.
15. There is an increase in production costs of both goods.
16. All of the following factors will result in the shift of the production possibility frontier, except:
17. An increase in the quantity and quality of resources.
18. Technological improvement.
19. An increase in capital stock.
20. A reduction in the marginal productivity of labour.
21. All of the following are properties of indifference curves, except:
22. The further away from the origin, the higher the satisfaction and they will be preferred.
23. Indifference curves cannot intercept each other.
24. They have a positive slope.
25. Indifference curves are convex to the origin.
26. Economies of scale do not refer to:
27. Long run concept that causes a producer’s average costs per unit to fall as scale is increased.
28. The cost advantages that a business obtains due to expansion.
29. Long run reductions in unit costs as the size of the firm increases.
30. Reduction in fixed costs in the long run.
31. Price discrimination exists when:
32. A firm charges different prices for different goods.
33. Sales of identical goods and services are transacted at different prices from the same provider.
34. High income consumers are charged lower prices than other consumers.
35. Goods and services are in short supply.
36. A circular flow of income illustrates:
37. The relationship between savings an investment.
38. The role of government and financial markets.
39. The reciprocal circulation of income between producers and consumers.
40. The level of government expenditure and national debt.
41. For money to serve as a store of value, it should meet all of the following characteristics, except:
42. It should be divisible into smaller units.
43. It should be long lasting.
44. It should have value.
45. It should be difficult to counterfeit.
46. The Reserve Bank of Malawi ensures financial stability and safety of depositor’s funds through:
47. As a regulator and supervisor of banks.
48. As a banker to government.
49. As a banker to commercial banks.
50. As a lender of last resort.
51. All of the following influence demand for money balances, except:
52. The level of prices.
53. The level of interest rates.
54. The type of exchange rate system.
55. The level of Real national output (GDP).
56. Which of the following, monetary policy instruments does the Central Bank use to influence the level of domestic credit?
57. Liquidity Reserve Requirement.
58. Monetary Base.
59. Discount Window Lending.
60. Bank Rate.
61. A fall in the value of the Malawi Kwacha against other currencies would result in:
62. Making exports more expensive.
63. Inflation.
64. Increase in domestic aggregate demand.
65. Making imports more expensive.
66. The downward sloping nature of the Phillips curve shows that:
67. There is a positive relationship between inflation and unemployment.
68. Unemployment causes inflation.
69. There is a trade-off between inflation and unemployment in the short run.
70. The country is in a recession.
71. The concept of comparative advantage in international trade refers to:
72. The ability to produce a particular good at a lower absolute cost than the other.
73. The ability to produce a particular good with lower average costs.
74. The ability to produce a particular good at a lower opportunity cost than the other.
75. The ability to produce a particular good with less capital stock.
76. Terms of Trade will rise if:
77. Export prices are rising faster than import prices.
78. Import prices are rising faster than export prices.
79. Import prices and export prices are rising in equal proportions.
80. The exchange rate has been revalued.
81. A tariff will have greater effect:
82. The inelastic demand and supply is.
83. The more elastic demand and supply is.
84. The lower the terms of trade.
85. The higher the terms of trade.
86. The current account of the Balance of Payment measures net trade in goods and services. Trade in goods include all of the following except:
87. Manufactured goods.
88. Raw materials.
89. Energy products.
90. Tourism.
91. Which of the following is not a characteristic of a free floating exchange policy?
92. Value of currency is determined by market demand and supply.
93. There is no pre-determined official target of the exchange rate.
94. Exchange is given a specific target.
95. Trade flows and capital flows are the main factors affecting the exchange rate.
96. Cost push inflation may be caused by all of the following factors, except:
97. Rising imported raw materials.
98. Rising labour costs.
99. Higher indirect taxes imposed by the government.
100. Rapid growth in money supply.

**SECTION B (60 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

(a) Discuss the Law of Diminishing Marginal Return . *(12 marks)*

(b) Mention four factors that a consumer needs to take into consideration when choosing between different goods and services so as to maximise utility. *(8 marks)*

**(Total 20 marks)**

**QUESTION 3**

Price elasticity of demand measures the magnitude by which consumers change the quantity demanded in response to a change in the price of the product.

(a) State and explain **four** factors that determine the value of price elasticity of demand. *(16 marks)*

(b) Define price elasticity of supply. In your opinion, why is its value positive? *(4 marks)*

**(Total 20 marks)**

**QUESTION 4**

(a) Define the term exchange rate. *(3 marks)*

(b) Explain **three** advantages of a fixed exchange rate system. *(9 marks)*

(c) State two ways in which a depreciation of the local currency would improve a country

trade balance position. *(8 marks)*

**(Total 20 marks)**

**QUESTION 5**

Write shorts notes on the following:

(a) Liquidity Reserve Requirement *(5 marks)*

(b) Inflation Targeting *(5 marks)*

(c) Budget Deficit  *(5 marks)*

(d) External Debt *(5 marks)*

**(Total 20 marks)**

**QUESTION 6**

It is generally argued that Malawi’s financial sector lacks a vibrant secondary market for

trading money market instruments.

**Required:**

(a) Explain **three** functions of banks in an economy. *(9 marks)*

(b)Distinguish between Money Market and Capital Market. *(9 marks)*

(c) Suggest **one** way in which Malawi’s secondary money market can be promoted.

*(2 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**