

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

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

**Date: Tuesday, 10th May 2016**

**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 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.

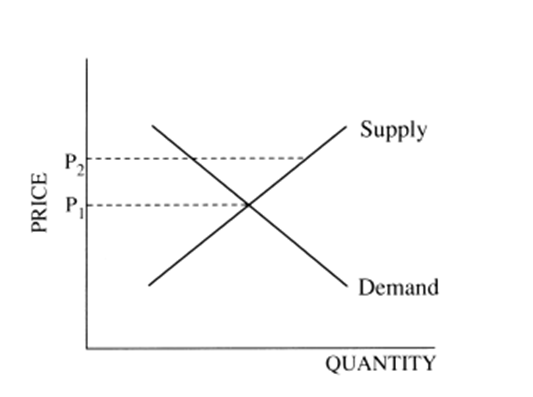
8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester

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

**SECTION A (40 MARKS)**

Answer ALL questions from this section.

1. Economics is;
2. the study of the markets for stocks and bonds
3. the study of choice under conditions of scarcity
4. exclusively the study of business firms
5. applicable only when scarcity is not a problem
6. Devaluation of a currency will lead to which of the following?
7. Appreciation of the currency
8. An increase in exports
9. An increase in imports
10. A decrease in exports
11. Opportunity costs arise in production because;
12. resources are unlimited
13. resources must be shifted away from producing one good in order to produce another
14. wants are limited in society
15. monetary costs of inputs usually outweigh non-monetary costs
16. In one hour, Chimwemwe can fix 4 flat tires or type 200 words. His opportunity cost of fixing a flat tire is;
17. 200 words
18. 4 flat tires
19. 1 word
20. 50 words
21. If the economy is producing a combination of goods inside its production possibilities frontier, then;
22. Workers are on vacation
23. A significant number of workers have little education
24. Some resources are being wasted
25. Technology must improve before output can increase



1. The diagram above shows the demand and supply curves for a normal good.

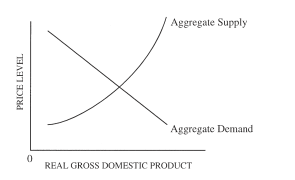
The equilibrium price could rise from P1 to P2 if;

1. consumers’ incomes increased
2. P2 were set as a legal maximum
3. the price of complementary product increased
4. costs of production were substantially lowered
5. As its output increases, a firm’s short-run marginal cost will eventually increase because of;
6. Diseconomies of scale
7. Inefficient production
8. A lower product cost
9. Diminishing returns
10. Microeconomics deals with which of the following?
11. the total output of an economy
12. the measurement of a nation's inflation rate
13. how producers and consumers interact in individual markets
14. how tax policies influence economic growth
15. Due to a scarcity of resources;
16. every society must undertake central planning
17. the government must decide how to allocate available resources
18. some members of each society must live in poverty
19. every society must choose among competing uses of available resources
20. A perfectly elastic demand curve is;
21. upward sloping.
22. horizontal
23. vertical.
24. downward sloping.
25. If an economy's production possibilities frontier shifted to the right, this would illustrate;
26. increasing opportunity cost
27. decreasing opportunity cost
28. a fall in resource utilization
29. economic growth
30. Which of the following would increase demand for a normal good? A decrease in
31. Price
32. Income.
33. The price of a substitute.
34. The price of a complement.
35. The fundamental theory of a firm is to maximize profits and in a profit maximization graph this occurs at the output where;
36. Marginal Revenue is greater than Marginal Cost
37. Average Revenue equals Average Total Cost
38. Marginal Revenue equals Marginal Cost (MC=MR)
39. Marginal Cost is lower than Marginal Revenue
40. Which one of the following is true regarding price elasticity of demand?
41. It determines the relationship between price and taxes.
42. It determines the relationship between supply and demand.
43. It can be calculated by dividing price by supply.
44. It is a relationship between price changes and the responsiveness of consumers to those changes.
45. What does a total revenue curve represent?
46. The relationship between prices and quantity supplied
47. The relationship between prices and units made
48. The relationship between revenue and quantity sold
49. An illustration of quantity demanded
50. If the marginal cost curve of a monopolist shifts up, which of the following will occur to the monopolist’s price and output?

Price Output

1. Decrease Increase
2. Decrease Decrease
3. Increase Increase
4. Increase Decrease
5. Suppose that the consumer price index rises from 100 to 200. From this information we may conclude that;
6. Each person’s real income changes by 200
7. Consumer incomes are doubled
8. The prices in an average consumer’s market basket are doubled
9. All consumer goods prices are doubled
10. If the government of Malawi increases expenditures on goods and services or increases taxation, which of the following will occur?
11. Aggregate demand will be unchanged
12. Aggregate demand will increase
13. The money supply will decrease
14. The money supply will increase
15. What is the difference between total utility and marginal utility?
16. Total utility is the average of both variable and marginal utility
17. Total utility describes the total satisfaction of a product while marginal utility describes the additional satisfaction gained from a product
18. Marginal utility describes the total satisfaction while total utility describes the additional satisfaction gained from a product
19. Marginal and total utility have the same meaning

Question 20 refers to the following diagram



1. Based on the diagram above, what effect will an increase in the world supply of oil have on real gross domestic product and the price level?

Real Gross

Domestic Product Price Level

1. Decrease Increase
2. Decrease Decrease
3. Increase Increase
4. Increase Decrease

**SECTION B (60 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

1. Explain the difference between microeconomics and macroeconomics.

*(6 marks)*

1. Give an example of a government **microeconomic** policy and explain how it might affect a firm. *(7 marks)*
2. Give an example of a government **macroeconomic** policy and explain how it might affect a firm. *(7 marks)*

**(Total 20 marks)**

**QUESTION 3**

1. Identify and explain all **four** factors of production, giving an example of **each**.

*(8 marks)*

1. Draw a fully labelled Production Possibility Frontier diagram to illustrate the possible effect of an increase in the available factors of production on economic output.  *(7 marks)*
2. Explain the circular flow income model. *(5 marks)*

**(Total 20 marks)**

**QUESTION 4**

1. List any **three** factors that influence our total demand for money balances.

*(3 marks)*

1. Identify **three** types of monetary policy. *(3 marks)*
2. Explain how **one** of the three types of monetary policy identified in **(a)** operates and discuss how changes in the policy might affect the profitability of a business.

*(14 marks)*

**(Total 20 marks)**

**QUESTION 5**

1. Distinguish between inflation and deflation. *(5 marks)*
2. Discuss whether a business should be more concerned about either an inflationary situation or a deflationary situation. *(15 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Distinguish between a quota and an embargo.  *(5 marks)*
2. Explain why some businesses might support a government’s decision to introduce barriers to trade and why other businesses would not support such a decision. *(15 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**