

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

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

**Date: Tuesday, 8th November 2016**

**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

1. A real value can be derived from a nominal value by
2. Adjusting for inflation
3. Adjusting for population changes
4. Adjusting for time differences
5. Adjusting for demand
6. Opportunity cost of a good is
7. The amount left after purchasing the good
8. The cost of the next best alternative
9. The cost of a superior good
10. The cost of an inferior good
11. Suppose the following headlines appear in the Nation newspaper, which would most clearly represent a macroeconomic issue?
12. Illovo production affected by poor weather conditions
13. Buyers spend all day at Admarc
14. Reserve Bank raises policy rate to 27%
15. National Bank to lay off 100 workers
16. If a price of good A increases the quantity demanded of good B, then good B is a
17. Complementary good
18. Normal good
19. Substitute good
20. Inferior good
21. An increase in taste preference for Fanta pineapple would cause the demand curve for fanta pineapple to
22. Shift to the left
23. Shift to the right
24. Remain the same and so would the supply curve
25. Remain the same, however the supply curve would move to the right
26. When price elasticity of demand is less than one, the good is
27. Price elastic
28. Perfectly inelastic
29. Perfectly elastic
30. Inelastic
31. At break- even...
32. Average revenue =average total cost
33. Average revenue=average variable cost
34. Marginal cost=average cost
35. Marginal revenue=demand
36. Economies of scale are...
37. The cost advantages that a business obtains due to expansion
38. Factors that cause a producer’s average cost per unit to fall as scale is increased
39. A long run concept that refers to reductions in unit cost as the size of a facility, or scale, increases
40. All of the above
41. Which of the following is not included in M1
42. Coins
43. Savings deposits
44. Central bank deposits
45. Bills
46. The final output (goods and services) produced within the country during a particular period, usually a year, is called
47. GNP
48. GNI
49. GDP
50. Exports
51. If a policy reduces the size of money supply or decreases the interest rate it is known as
52. A contraction policy
53. An expansionary policy
54. A fiscal policy
55. A money policy
56. If the inflation rate is 20%, then a bottle of Sobo which cost K1000 in a given year will cost how much the next year?
57. K1020
58. K1200
59. K1400
60. K200
61. In Zimbabwe, inflation reached 400% in 2008, this is an example of
62. Deflation
63. Hyperinflation
64. Peak inflation
65. Expansion inflation
66. Which of the following are not trade barriers?
67. Import licences
68. Economies of scale
69. Tariffs
70. Embargo
71. Which of the following is a direct tax?
72. VAT
73. Income tax
74. Excise duty
75. All of the above
76. Price elasticity of demand measures
77. The range of demand for a product from one extreme to another
78. The magnitude by which consumers change the quantity demanded in response to a change in the supply of the product
79. The extent by which consumers change the quantity demanded in response to a change in the price of the product
80. None of the above

17. Use the graph below for Question 17

Price

Range A

D

Quantity

Range B

Midpoint

Total revenue

1. varies inversely with price in range b.
2. is always maximized at the midpoint of any demand curve.
3. remains unchanged as price changes in range b.
4. none of the above.

Use the graph below for questions 18, 19 and 20. It illustrates the market demand and supply for Jiggies.

**P**

**S**

**D**

8

4

3

150

100

**Q**

400

18. The market equilibrium price of Jiggies is. (c)

1. 0
2. K8
3. K4
4. K3

19. Suppose that a drought destroys part of the wheat crop from which Jiggies are made.

Then, what would happen to the equilibrium price and quantity of flour sold? (b)

1. Price would rise and the quantity would increase.
2. Price would rise and the quantity would decrease.
3. Price would fall and the quantity would increase.
4. Price would fall and the quantity would decrease.

20. The quantity of Jiggies supplied at a price of K3 is closest to: (b)

1. 300
2. 100
3. 150
4. 0

**SECTION B (40 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

(a) Explain **three** differences between a communist economy and a capitalist economy. *(6 marks)*

(b) State **three** possible functions of prices in a free market economy. *(4 marks)*

(c) With the aid of a diagram, explain how price ceilings create excess

demand.  *(10 marks)*

**(Total 20 marks)**

**QUESTION 3**

1. List the **four** main factors that influence the total demand for money? *(2 marks)*
2. Money supply is the amount of money available within a specific economy. The supply is usually considered as three categories, M1, M2 and M3. Define the **three** categories. *(6 marks)*
3. What are the **three** functions of money and the desirable features associated with each function.(6 marks) *(6 marks)*

d) Discuss whether a government should be concerned if people began to spend most of their money.  *(6 marks)*

**(Total 20 marks)**

**QUESTION 4**

1. Define the term GDP and how to calculate GDP using the expenditure method?

*(8 marks)*

1. How can a budget deficit be financed?  *(6 marks)*
2. Describe the risks associated with a high level of domestic borrowing *(6 marks)*

**(Total 20 marks)**

**QUESTION 5**

Costs are defined as those expenses faced by a business in the process of supplying goods and services to consumers. In the short run, we make a distinction between fixed and variable costs.

1. Describe the difference between fixed and variable costs. Use examples of each.

*(4 marks)*

1. Discuss marginal revenue and at which point of marginal revenue total revenue is maximised? *(6 marks)*
2. What is the law of diminishing marginal returns and the criticisms against it?

*(5 marks)*

1. Describe why marginal product first rises then falls. *(5 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Explain **three** potential benefits of free trade.  *(6 marks)*
2. Discuss the Terms of Trade and its limitations. *(5 marks)*
3. Distinguish between quotas and export subsidies as methods of trade protection.

*(4 marks)*

1. Explain how a subsidy could be used to protect an industry from foreign competition *(5 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**