

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

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

**Date: Tuesday, 30th April 2013**

**Time Allocated: 3 hours (08:00 – 11:00am)**

**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 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 in Section B.

6 **Please write your examination number on each answer book used. Answer books without examination number will not be marked.**

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

**SECTION A (40 MARKS)**

Answer **ALL** questions from this section.

1. A production possibility frontier is a curve that shows:
2. The marginal cost of producing one good over the other
3. Alternative combinations of goods that can be produced when available resources are used fully and efficiently
4. Income changes arising from increased production of one good than the other
5. The opportunity cost of producing one good is zero.
6. All of the following are considered factors of production except:
7. Labour
8. Rent
9. Capital
10. Land.
11. For a normal good:
12. An increase in income shifts the demand curve rightwards
13. An increase in income shifts the demand curve leftwards
14. An increase in income leads to an increase in total revenue
15. An increase in income leads to a decrease in total revenue.
16. Normal goods that have a positive elasticity of demand of greater than one are:
17. Necessities
18. Inferior goods
19. Luxuries
20. Substitutes.
21. Indifference curves do not intersect because:
22. The negative slope of the curve becomes smaller and smaller
23. The curve is bowed inwards towards the origin
24. The higher points derive higher satisfaction and would be preferred
25. It would be possible to have points below and above the curve as deriving the same satisfaction.
26. In the theory of firms, profit maximization occurs at a point where:
27. Average revenue equals average total cost
28. Marginal revenue is zero
29. Long run total costs equals average short run costs
30. Marginal revenue equals marginal cost.
31. All of the following features must be present for money to serve as a unit of account except:
32. It should be easily transferable
33. It should be divisible into smaller units
34. It should be fungible
35. It should have a specific weight or size.
36. In the Keynesian theory of demand for money; speculative balances refer to:
37. Money held to cover unexpected items of expenditures
38. Money held in place of other financial assets
39. Money held for anticipated purchase of goods and services
40. Money held as a unit of account.
41. Yields on interest rates on any investments take into account the following except:
42. The risk free cost of capital
43. Inflationary expectations
44. The level of risk in the investment
45. The size of the money multiplier
46. Nominal Gross Domestic Product (GDP) refers to:
47. The amount of goods and services produced in a particular year
48. The value of goods over a particular period valued at their current year prices
49. The value of goods over a particular period valued at prices that existed at base year
50. The amount of value added in the production chain
51. Which of the following is not a component of aggregate demand:
52. Government expenditure
53. Consumption
54. Investment
55. Savings
56. An increase in taxes is an example of:
57. A contractionary fiscal policy
58. An expansionary fiscal policy
59. An expansionary monetary policy
60. A contractionary monetary policy
61. For a country in a recession; the most appropriate fiscal policy response would be:
62. To reduce government expenditure thereby controlling aggregate demand
63. To increase government expenditure thereby stimulate aggregate demand
64. Increase interest rates
65. To reduce unemployment
66. Demand pull inflation in an economy occurs when:
67. Prices of imported raw materials increase
68. Labour costs increase
69. Money supply is reduced
70. Aggregate demand for goods and services exceed aggregate supply
71. If terms of trade index is rising, it means that:
72. Fewer exports have to be given up in exchange for a given volume of imports
73. Import prices are rising faster than export prices
74. The country is in a recession
75. The opportunity costs of producing a unit of exports and imports are equal
76. The major limitation of using terms of trade index for policy decision is that
77. Terms of trade calculations do not tell us about the volume of a country’s export
78. It is difficult to determine the appropriate exchange rate to be applied when calculating the index
79. Prices are not taken into account when calculating the terms of trade index
80. The price of exports cannot be determined in advance
81. A tax on imports that is used to restrict imports and raise revenue for the government is an example of:
82. Non-tariff barrier
83. An import quota
84. A tariff barrier
85. Voluntary export restraint
86. A visible trade balance deficit means:
87. A country is importing more physical goods that it exports
88. A country has more foreign direct investment
89. A country’s capital account is in a deficit
90. A country has an overall balance of payment deficit
91. An appreciation in the exchange rate means that:
92. The demand for local currency is high
93. The supply for local currency is high
94. The demand for foreign currency is high
95. The supply for foreign currency is low
96. Higher interest rates are used to reduce a balance of payment deficit by:
97. Crowding out private investment
98. Slowing down the growth of consumer demand
99. Increasing the amount of loanable funds
100. Increasing the tax multiplier

**SECTION B (60 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

1. Explain any **three** factors that determine the value of price elasticity of demand. *(12 marks)*
2. State **two** factors that rational consumers take into consideration when choosing between different goods and services so as to maximize total utility. *(4 marks)*
3. Briefly explain how an increase in the price of barter would affect the quantity demanded of stock margarine *ceteris paribus*. *(4 marks)*

**(Total 20 marks)**

**QUESTION 3**

(a) Define the term marginal product of labour. *(2 marks)*

(b) The table below shows hypothetical statistics on labour and total output per day of bags of maize at a certain maize farm with fixed capital and land.

|  |  |  |
| --- | --- | --- |
| **Labour Input (Workers per day)** | **Total Output (Bags of maize per day)** | **Marginal Product** |
| 1 | 5 |  |
| 2 | 12 |  |
| 3 | 27 |  |
| 4 | 35 |  |
| 5 | 41 |  |
| 6 | 43 |  |

**Required:**

1. Calculate the marginal product at each level of output. *(6 marks)*
2. At what level do diminishing returns occur? *(2 marks)*
3. Explain why marginal product first rises and then falls. *(10 marks)*

**(Total 20 marks)**

**QUESTION 4**

1. Explain **three** ways through which government finances its expenditures.

*(6 marks)*

1. Explain **three** economic risks associated with high level of government borrowing. *(6 marks)*
2. Explain **four** ways in which the Reserve Bank of Malawi controls money supply in the economy. *(8 marks)*

**(Total 20 marks)**

**QUESTION 5**

1. State **four** arguments for protectionism under international trade. *(8 marks)*
2. Explain how the following trade barriers operate as protectionist measures under international trade:
   1. Import quotas *(4 marks)*
   2. Tariffs *(4 marks)*
   3. Voluntary Export Restraints *(4 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Define the Net Property Income from abroad (NPI). *(2 marks)*
2. Explain how income is measured through the income approach and the value added output approach. *(6 marks)*
3. Outline **six** major problems associated with national income accounting. *(12 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**