

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

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

**Date:**

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

**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. The key issues of Macroeconomics are
2. Unemployment
3. Inflation
4. Economic growth
5. All of the above
6. The Opportunity cost of a student is
7. Course fees and transport
8. A loan from the bank
9. What the student could have earned in the best job available by not studying
10. What the student will earn after graduation
11. A competitive firm produces a level of output at which
12. Price is greater than Marginal Cost
13. Price equals Marginal Cost
14. Price is less than Marginal Cost
15. None of the above
16. If the Reserve Bank of Malawi buys financial securities in the open market to increase the monetary base, this is an example of
17. Lender of last resort
18. Financial intermediation
19. Open market operations
20. Financial regulation
21. **Which of the following is also known as International Bank for Reconstruction and Development?**
22. Asian Development Bank
23. World Bank
24. African Export Import Bank
25. International Monetary Fund
26. **Which among the following is a cause of inflation?**
27. Deficit financing
28. Rise in external loans
29. Unfavourable balance of payment
30. A hike in the CRR by the Reserve Bank of Malawi
31. **Cost push inflation occurs because of:**
32. Wage push
33. Profit push
34. Both A and B
35. Ineffective policies of the government
36. The final output (goods and services) produced within the country during a particular period, usually a year, is called
37. Exports
38. GNI
39. GDP
40. GNP
41. Chilenje Food Processors Limited is in the business of selling packets of groundnuts flour. The selling price of each 500g packet is K300. In the month of February 2017, the enterprise sold 1,000 500g packets. Calculate the Total Revenue realised
42. K30,000
43. K150,000
44. K300,000
45. K500,000
46. If the inflation rate is 25%, then a packet of Surf washing powder which cost K1200 in January 2016 is now costing how much this year of 2017?
47. K1050
48. K1450
49. K1500
50. K500
51. **Number of times a unit of money changes hands in the course of a year is called\_\_\_\_\_\_\_**
52. Supply of money
53. Purchasing power of money
54. Velocity of money
55. Value of money
56. Real GNP is a crude measure of national welfare because it excludes
57. Consumption
58. Exports
59. Investment
60. Work in the home
61. Price elasticity of demand measures
62. The responsiveness of quality demanded to a change in price
63. How far a demand curve shifts
64. A change in price
65. A change in quantity demanded

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1. A fall in investment demand can result from
2. Higher interest rates
3. Lower expected future profits
4. More expensive capital goods
5. All of the above
6. The price of a cellular phone in Blantyre Flea Market has been adjusted from K10, 000 to K15, 000 within the month of January 2017. As a result the quantity sold in the month changes from 1, 000 to 800 units. The Price Elasticity of Demand is;
7. Inelastic
8. Elastic
9. Perfectly elastic
10. Perfectly inelastic
11. **is the official minimum rate at which the Central Bank of a country is prepared to rediscount approved bills held by the commercial banks.**
12. Repo rate
13. Bank rate
14. Prime lending rate
15. Reverse repo rate
16. Adding up the quantities demanded of a good by different people facing the same price gives us the
17. Supply curve
18. Market demand curve
19. Demand curve
20. Market supply curve
21. Inferior goods have luxury goods have
22. Negative income elasticities, income elasticities greater than 1
23. Income elasticities greater than 1, negative income elasticities
24. Positive income elasticities, negative income elasticities
25. None of the above
26. Equilibrium in the money market will change if there is
27. A change in the real money supply
28. A change in real income
29. A change in competition in the banking industry
30. Any of the above
31. At the price of K900, tickets for the Blantyre Soccer derby are expensive. Yet, there are long lines of people who wish to buy them. Many people who desire tickets will not be able to find them." From this quote, we know that the price of Blantyre Soccer derby tickets must be:
32. Below equilibrium
33. Above equilibrium
34. Equal to equilibrium
35. None of the above

**SECTION B (40 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

1. Define the following types of profits
   1. Normal profits – *are the minimum level of profit required to keep factors of production in their current use in the long run*
   2. Abnormal profits – *any profit in excess of normal profits*
   3. Subnormal profits *- is any profit less than the normal profit* *(6 marks)*
2. Briefly explain the **three** main functions of money.
3. *It is a medium of exchange – it is used as an intermediate object of trade*
4. *It is a unit of account – it is used to measure value or compare value of other goods*
5. *It is used as a store of value – it is primarily purchase to store value for future trade**(6 marks)*
6. Outline **four** functions of the Reserve Bank of Malawi in the financial industry
7. *A banker to the government*
8. *A banker to commercial banks*
9. *Sets and manages monetary policy*
10. *Acts as a lender of last resort*
11. *Manages the exchange rate*
12. *Advises government on fiscal policy (8 marks)*

**(Total 20 marks)**

**QUESTION 3**

1. Malawi has used two regimes of exchange rates. Fixed and floating. Outline **two** advantages and disadvantages of each of the regimes for Malawi.

*Fixed Exchange rate- Advantages -provided greater certainity to exporters and importers of the money to be paid or received. There is little or no room for speculators who usually affect the exchange rate*

*Disadvantages - The existence of black market as there is usually high demand for the currency as usually it is cheap. Can result in exports being expensive if the currency is held at an unjustifiably high price*

*Floating Exchange rate- Advantages -fluctuations of the exchange rate provide for automatic adjustment of the deficits in the Balance of Payments. It gives flexibility for the government through reserve bank to determine interest rates. Lower possibilities of black market*

*Disadvantages – There is a lot of speculation that influenced the exchange rate. There is little discipline on domestic firms and employees to keep their costs under control in order to remain competitive*

*(8 marks)*

1. Briefly write short notes on the following
2. Spot exchange rate – *refers to current exchange rate*
3. Forward exchange rate – *refers to an exchange rate that is quoted and traded today but for delivery and payment on a specific future* date  *(6 marks)*
4. List down and explain any **three** fundamental factors that drive an exchange rate
5. *Interest rates- when interest rates are high relative to other countries this attracts in flows of money thereby increasing the demand for the currency*
6. *Economic Growth – countries in recession will have weak exchange rate as there is low demand for the currency*
7. *Inflation – countries with higher than average exchange rate will have a depreciating currency*
8. *Balance of Payments – selling of exports represents a n acquisition of other currencies, importers will demand the local currency and thereby it will appreciate*
9. *Market Speculators – when speculators expect a currency to depreciate they will quickly try to offload their holdings thereby depreciating the currency further*

*(6 marks)*

**(Total 20 marks)**

**QUESTION 4**

Mr. Phiri intends to acquire a used van and turn it into a mini bus. He will pay for the van from his gratuity which he got from his last employment. He intends to recruit a permanent driver and a conductor. The other main costs will be insurance, maintenance and fuel.

1. Identify **three** fixed and **three** variable costs in the scenario above.

*The fixed costs are the used van, permanent driver and conductor*

*The variable costs are insurance, maintenance cost and fuel*

*(6 marks)*

1. Briefly describe the difference between fixed cost and variable costs. *Fixed costs relate to the fixed factors of production and do not vary directly with the level of output while Variable costs are costs that vary directly with the level of output*  *(4 marks)*
2. What is the law of diminishing marginal returns? Illustrate your answer with an aid of a diagram.

*The law of diminishing marginal returns states that as we add more units of the variable input to fixed amounts of land and capital, the change in the total output will first rise and then begin to fall* *(5 marks)*

1. Describe why marginal product first rises then falls.

*The behaviour of marginal product is linked directly to the productivity of each additional worker. At low levels of employment, the fixed factors of production land and capital are underutilized. This means that each additional worker will have plenty of capital to use and as a result marginal product will rise. However, beyond a certain point, the fixed factors of production become scarce and new workers will not have much capital to work with.*  *(5 marks)*

**(Total 20 marks)**

**QUESTION 5**

1. Explain **three** potential benefits of protectionism.
2. *It helps save and protect domestic jobs*
3. *Infant industries are protected*
4. *Fair trade does not force other countries to lower their trade barriers so protectionism saves the local industries*
5. *National defense- ignores stockpiling and purchases from friendly countries*   *(6 marks)*
6. Explain the Terms of Trade and its limitations.

*Terms of trade refer to the relative prices of a country’s exports to imports. It measures* *the rate of exchange of one good or service for another when two countries trade with each other.*

*Terms of trade do not show the volume of the countries’ exports. TOT cannot be used to measure social welfare, even optimum economic welfare* *(5 marks)*

1. There is a difference between import quotas and export subsidies as methods of trade protection. What is your preferred policy among the two methods? Give reasons to justify your answer

*The advantages of import quotas is that it restricts the amount of goods that are imported into the country and gives room for local companies to fill in the gap in the supply of goods. On the other hand export subsidies mean that the government is spending some of its revenue to pay suppliers so that they export their commodities outside the country*

*(6 marks)*

1. Outline **three** measures that the Malawi Government has been using to reduce Balance of Payments deficit
2. *Changes in the interest rates*
3. *Fiscal policies like increasing taxes on imported goods*
4. *Depreciation of the exchange rate*
5. *Cyclical factors due to strength of domestic demand (3 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Governments in Malawi have at times set their targets on inflation figures. It still remains contentious whether such targets have been achieved. Give **two** advantages and **two** disadvantages of this approach to inflation control.
2. *Two advantages* 
   * + 1. *it reduces inflationary expectations* *when people believe such targets will be met*
       2. *A target gives monetary policy a clear anchor and improves accountability and transparency*
       3. *Sustained low inflation improves prospects for higher levels of capital investment in both manufacturing and service industries*
3. *Two disadvantages*
4. *There is a danger that adherence to tough inflation targets may lead to the economy operating below its long term productive potential*
5. *It may lead to fluctuation of the exchange rates of the currency*
6. *May lead to higher interest rates (8 marks)*
7. List with brief notes three economic policies that the Malawi Government has used to control inflation.
8. *Monetary policy- through the control of interest rates*
9. *Fiscal policy through the use of taxes*
10. *Appreciation and depreciation of the exchange rate*
11. *Direct wage controls of public or civil servants thereby controlling spending power* *(6 marks)*
12. Briefly explain the **two** types of inflation below
13. *Cost-push inflation – occurs when firms increase prices to maintain or protect profit margins after experiencing a rise in their costs of production.*
14. *Demand-pull inflation – occurs when aggregate demand for goods and services in an economy exceeds aggregate supply*

*(6 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**