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**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

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

**Date: Tuesday, 5th May 2015**

**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 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 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. An expansionary fiscal policy increases aggregate demand by:
2. Reducing the interest rate.
3. Increasing autonomous spending.
4. Lowering the demand for money.
5. Increasing the money supply.
6. Individuals *A* and *B* can both produce good *X*. We say that *A* has a comparative advantage in the production of good *X* if:
7. *A* has a higher opportunity cost of producing X than B.
8. *A* can produce *X* using newer technology than *B*.
9. *A* can produce more units of *X* in a given time period than *B*
10. *A* has a lower opportunity cost of producing *X* than ***B*.**

3. This question is based on the chart 1 below, which gives a firm’s total cost of producing different levels of output.

|  |  |
| --- | --- |
| Output | Total Cost |
| 0 | 130 |
| 1 | 200 |
| 2 | 250 |
| 3 | 280 |
| 4 | 320 |
| 5 | 430 |
| 6 | 600 |

**Figure 1**

The marginal cost of producing the fourth unit of output is:

1. MK 40
2. MK110
3. MK190
4. MK320

4. The development of money as a medium of exchange has facilitated the expansion of trade as opposed to barter trade because:

1. Holding money increases people's income.
2. No other mediums of exchange are available.
3. Money eliminates the "double coincidence of wants" problem.
4. Holding money increases people's wealth.

5. As the interest rate falls, people hold \_\_\_\_\_\_\_\_ money instead of bonds because the opportunity cost of holding money has \_\_\_\_\_\_\_\_.

1. more; fallen
2. more; risen
3. less; fallen
4. less; risen

6. An example of a contractionary monetary policy is:

1. an increase in the required reserve ratio.
2. a reduction in the taxes banks pay on their profits.
3. a decrease in the discount rate.
4. the fed buying government securities in the open market

Refer to the information provided in Figure 2 bellow to answer the two questions that follows:

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**Figure 2**

7. Refer to Figure 2. An aggregate demand shift from *AD*2 to *AD*0 can be caused by:

1. an increase in the price level.
2. a decrease in the price level.
3. a decrease in money supply.
4. a decrease in taxes.

8. Refer to Figure 2. An aggregate demand shift from *AD*1 to *AD*0 can be caused by:

1. an increase in the price level.
2. a decrease in the price level.
3. a decrease in government spending.
4. an increase in money supply.

9. The depletion of fish stocks in Lake Malawi with an accompanying unemployment, will lead to a:

1. movement from the existing production possibilities frontier to a point inside the production possibilities frontier.
2. shift inward of the existing production possibilities frontier.
3. shift inward of the existing production possibilities frontier plus a

movement to a point inside the new production possibilities frontier.

1. movement along the existing production possibilities frontier to a point of less fish production.

***Refer to the information provided in Figure 3 below to answer the three questions that follow.***



**Figure 3**

10. Refer to Figure 3. Cost-push inflation occurs if:

a) the aggregate supply curve shifts from *AS*1 to *AS*0.

b) the economy moves from Point *A* to Point *B* on aggregate supply

curve *AS*1.

c) the aggregate supply curve shifts from *AS*1 to *AS*2.

d) the economy moves from Point *A* to Point *C* on the aggregate supply curve *AS*1.

11. If the increase in the price of one good decreases the demand for another, then the two goods are:

a) Inferior goods

b) Complementary goods

c) Substitute goods

d) Normal goods

12. Expansionary monetary policy:

a) tends to lead to an appreciation of a nation's currency.

b) usually has no effect on a currency's exchange value.

c) tends to lead to a depreciation of the currencies of other nations.

d) tends to lead to a depreciation of a nation's currency.

13. A bank has excess reserves to lend but is unable to find anyone to borrow the money. This will \_\_\_\_\_\_\_\_\_\_ the size of the money multiplier:

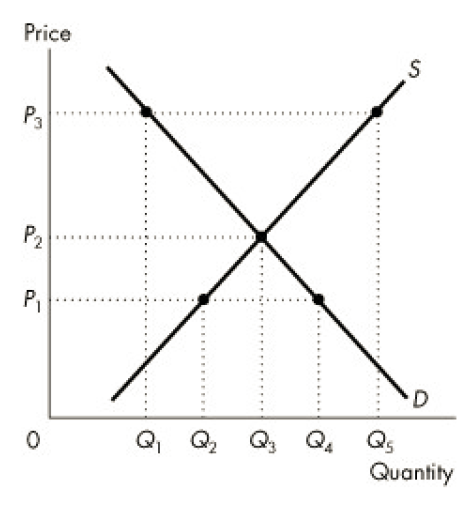
a) reduce

b) increase

c) have no effect on

d) double

14. Figure 4 shows aggregate demand and aggregate supply curves.



At price P3 in the figure above:

a) this market is in equilibrium.

b) there is a shortage in the amount of *Q*5 - *Q*1.

c) there is a tendency for the price to rise.

d) there is a surplus in the amount of *Q*5 - *Q*1.

15. If the Consumer Price Index (CPI) was 128 at the end of 2011 and 136 and the end of 2012, what was the inflation rate in 2012?

a) 4.2 percent

b) 5.9 percent

c) 6.25 percent

d) 8 percent

16. Macroeconomics is concerned with:

a) Only long-run trends in economic activity.

b) Only short-run fluctuations in the business cycle.

c) Both long-run trends and short-term fluctuations in economic activity.

d) Only with changes in the overall price level.

17. If one firm in a perfectly competitive industry experiences a technological breakthrough that lowers only that firm’s cost of production, which of the following correctly describes the effect on this firm’s price, quantity, and profit?

|  |  |  |  |
| --- | --- | --- | --- |
|  | Price | Quantity | Profit |
| A. | decrease | decrease | decrease |
| B. | decrease | increase | increase |
| C | no change | decrease | increase |
| D | no change | increase | increase |

18. Which of the following is accurate?

a) When the price level decreases, the value of money decreases.

b) When the price level decreases, the value of money increases.

c) When the price level decreases, the value of money remains the

same.

d) None of the above.

19. If the demand for potatoes increases whenever a person’s income increases, then potatoes are an example of:

a) an inferior good

b) a Giffen good

c) a normal good

d) a public good

20. The multiplier in an open economy is -------------------- than in a closed economy because, as income level increases, ----------------------.

a) Greater, there is a wider market available

b) Smaller, some of the increase will be used to buy imports

c) Greater, exports become more attractive to foreigners

d) Smaller, consumers buy goods that had previously been sent abroad.

**SECTION B (60 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

1. Define the term globalization. *(4 marks)*
2. Discuss which factors might increase a country’s Terms of Trade and which factors might decrease its Terms of Trade.  *(10 marks)*
3. Explain the difference between absolute advantage and comparative advantage in international trade.  *(6 marks)*

**(Total 20 marks)**

**QUESTION 3**

One of the Chief Executive Officers has asked you to advise his Business Development Manager about the income elasticity of demand. Using examples where necessary,

(a)Explain and provide a formula to measure income elasticity of demand. *(5 marks)*

(b)Explain how income elasticity of demand can be used to show the difference between normal goods and inferiorgoods.  *(5 marks)*

(c)Explain how the concept of income elasticity of demand might be useful to a business.*(10 marks)*

**(Total 20 marks)**

**QUESTION 4**

(a)Define the term ‘internal economies of scale’.  *(4 marks)*

(b) Draw a long run average total cost curve and label the parts of the curve which reflecting the respective economic returns.  *(8 marks)*

(c)Explain **two** types of economies of scale which a business could experience as it grows in size.  *(8 marks)*

**(Total 20 marks)**

**QUESTION 5**

You are an Executive at the Institute of Bankers in Malawi which is organizing a workshop for all its member banks. During the workshop the CEO has asked you to outline to the member banks **three** functions of a commercial (retail) bank, and explain the importance of these three functions to a business. **(Total** **20 marks)**

**QUESTION 6**

1. Explain with the aid of a diagram, the Production Possibility Frontier for a country producing two alternative goods; maize and tobacco.  *(5 marks)*
2. Use the Production Possibility Frontier to illustrate the opportunity cost for the country to produce maize. *(5 marks)*
3. Explain why the country would be inefficient if it operated at a point within its Production Possibility Frontier and identify some strategies that a firm might adopt to enable it to operate on the production possibility frontier. (*10 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**