

BOTSWANA
OPEN UNIVERSITY

Diploma in Business Management

Diploma in Human Resources Management

Economics I

EC111

Sessional Examination

Marks: 100

Time allowed: 3 hours

Instructions

1. The examination consists of four sections: A, B, C and D.
2. Begin each answer to a new question on a new page.
3. Answer questions according to instructions given in each section.
4. Write answers in the answer booklet provided.
5. Write in grammatical English.

SECTION A - MULTIPLE CHOICE QUESTIONS

[10 MARKS]

Answer ALL questions. Each question carries ONE (1) mark.

1. The following are features of a command economy except _____.
 - A. Income equality.
 - B. Efficiency.
 - C. Government owns resources.
 - D. No consumer freedom.

2. Needs which apply to everyone such as food, clothing, love and power are referred to as _____.
 - A. Cultural needs.
 - B. Luxury needs.
 - C. Natural needs.
 - D. Essential needs.

3. Which one of the following combination of products are substitutes?
 - A. Rim and tyres.
 - B. Cars and fuel.
 - C. Cassettes and CDs.
 - D. Tea and sugar.

4. If the government increases corporate taxes, what happens to the supply curve, price and quantity of normal goods?
 - A. Supply curve shifts to the left, price increases and quantity increase.
 - B. Supply curve shifts to the left, price increases and quantity decrease.
 - C. Supply curve shifts to the right, price increases and quantity decrease.
 - D. Supply curve shifts to the right, price increases and quantity increase.

5. A percentage change in quantity which is larger than a percentage change in price leads to which type of price elasticity of demand?
- A. Perfectly inelastic.
 - B. Unitary elastic.
 - C. Relatively elastic.
 - D. Relatively inelastic.
6. Habit forming goods can have which price elasticity of demand?
- A. 0.2.
 - B. 4.5.
 - C. 1.2.
 - D. 2.5.
7. The following are factors which affect demand except _____.
- A. Price of the product.
 - B. Consumer income.
 - C. Cost of production.
 - D. Preferences of consumers.
8. Which of the following macroeconomic objective ensures that resources are fully utilised?
- A. Full employment.
 - B. Economic growth.
 - C. Income inequality.
 - D. Control of inflation.
9. What is the effect of an increase in investment on the expenditure and income model?
- A. Equilibrium income does not change.
 - B. Equilibrium income increases.
 - C. Equilibrium income decreases.
 - D. None of the above.

10. Suppose that in an economy, aggregate demand shifts to the right and aggregate supply shifts to the left. Which of the following will certainly occur?
- A. Price level rise.
 - B. Price level fall.
 - C. Price level remain unchanged.
 - D. None of the above.

SECTION B – TRUE/FALSE QUESTIONS

[10 MARKS]

Answer ALL questions. Each question carries ONE (1) mark.

State whether each of the following statements is TRUE or FALSE.

1. Microeconomics takes a broad perspective and treats the economy as a whole.
2. The period at which a loan is taken is not a major determinant of interest rate.
3. Cost of production, technology, subsidies and natural disasters are determinants of supply.
4. Unit elasticity means that the percentage change in quantity demanded is equal to the percentage change in price.
5. Wages is remuneration for an entrepreneur.
6. Ordinal utility theory proposes that utility can be measured in utils which can either be physical or monetary.
7. Fixed costs are costs which change as output changes and are always incurred whether production takes place or not.
8. Economic development is the increase in output in a country from one period to another.
9. Households are the owners of factors of production.
10. New classical school argues that markets sometimes do not clear and there is a need for government to intervene and correct market failures.



SECTION C – SHORT ANSWER QUESTIONS

[30 MARKS]

Answer ALL questions.

1. Differentiate between the following as used in economics:
 - i. Microeconomics and macroeconomics. **(2 marks)**
 - ii. Free market and command economic systems. **(2 marks)**
2. Using an example, explain the concept of opportunity cost. **(4 marks)**
3. List any **two (2)** determinants of demand and explain how they can result in an increase in quantity demanded. **(4 marks)**
4. Identify any **two (2)** advantages of competition in a perfect competition market structure. **(2 marks)**
5. Evaluate the importance of economic development in a developing country like Botswana. **(4 marks)**
6. With the aid of a diagram, outline the law of demand. **(6 marks)**
7. With the aid of diagrams, differentiate between perfectly elastic and perfectly inelastic price elasticity of demand. **(6 marks)**



SECTION D - ESSAY AND STRUCTURED QUESTIONS

[50 MARKS]

Answer any TWO (2) questions.

QUESTION 1

(25 marks)

- a) With the aid of demand and supply curves, show the effect of the following on quantity and price:
- i. An occurrence of a drought.
 - ii. Decrease in price of compliments. (10 marks)

b) Complete the following table:

. The table below shows different types of costs:

Quantity	Fixed cost	Variable cost	Total cost	Marginal Cost	Average cost
0	30		30		
1		10			
2			48		24
3				6	
4		32			
5			80		

Complete the gaps in the table.

(10 marks)

- c) Explain how the government of Botswana can deal with the problem of unemployment. (5 marks)

QUESTION 2

[25 MARKS]

- a) Using a measure of elasticity, identify and explain:
- i. A luxury good.
 - ii. A necessity/ essential good.
 - iii. A substitute good.

- iv. A complimentary good.
- v. An inferior good. **(10 marks)**
- b) Calculate and comment the price elasticity of demand if quantity of good A increased from 20 000 sachets to 50 000 sachets as result of a price decrease from P100 to P20. **(5 marks)**
- c) Discuss any **five (5)** strategies/ policies the Botswana government is currently using to achieve economic development. **(10 marks)**

QUESTION 3

[25 marks]

- a) With the aid of a income and expenditure model explain the following:
 - i. The significance of the 45 degree line.
 - ii. Equilibrium point.
 - iii. Why consumption function never starts at zero.
 - iv. Saving and dis-saving regions. **(12 marks)**
- b) With the aid of the income and expenditure model (diagrams), analyse the effect of an increase in investment on expenditure and national income. **(5 marks)**
- c) Compare and contrast the AD-AS model and the expenditure-income model. **(8 marks)**

END OF EXAMINATION