

BOTSWANA OPEN UNIVERSITY
In collaboration with
THE COMMONWEALTH OF LEARNING

Commonwealth Executive Masters in Business Administration

Commonwealth Executive Masters in Public administration

ECONOMIC ENVIRONMENT OF BUSINESS

EP312

SESSIONAL EXAMINATION

Marks – 100

Time allowed: 3 hours

INSTRUCTIONS

1. The examination consists of **two** sections: Part A and B
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

Part A: Case study

[40 MARKS]

What's so great about rapid economic growth anyway?

I am not a fan of the New Yorker magazine. I find the articles ponderous and parochial; the little cartoons crushingly unfunny. But one recent edition carried a feature well worth reading. For the princely sum of 14,500 yuan (HK\$16,800), the magazine's Beijing correspondent joined 30 or so mainlanders for a grueling 10-day, five-country coach tour of Europe. Watching cultures collide – even at second hand – is always illuminating. No doubt the speed at which the tourists swept past the architectural and artistic glories of Paris, pausing only to snap the obligatory photographic record of their presence before heading off for an orgy of handbag shopping, would have raised some supercilious French eyebrows.

But equally, for their part the visitors were taken aback by the leisurely pace of life in Europe, where the locals linger over coffee, prohibit bus drivers from working more than 12 hours a day, and even stop their cars for pedestrians. “With a pace like that, how can their economies keep growing?” the Chinese guide asks. “Only when you have diligent, hardworking people will the nation's economy grow.” It's a theme that recurred constantly as the group tore around Europe, with the visitors marveling at the willingness of French workers to go on strike, and at how many years the Italians take to build a new highway. “If this were China, it would be done in six months,” one says. “That's the only way to keep the economy growing.”

What's remarkable here is not that the Chinese tourists found Europe slow-moving – Americans have been saying the same for decades – but that their automatic assumption that fast growth is the best, indeed the only, measure of a country's economic success. This begs the question: what's so great about rapid growth anyway? That might sound like a dumb thing to ask, but the more you think about it, the more the question makes sense. The growth our tourists were talking about was in gross domestic product (GDP), which measures the final value of all goods and services produced by an economy.



GDP was developed in the US during the Great Depression, and came into its own during second world war as a measure of how many guns, ships and planes the US economy was able to produce. It has been the standard measure of economic strength ever since. But GDP measures quantity, not quality. In other words, although it says a great deal about how much stuff you can churn out, it tells you very little about the state of your economic development.

For example, GDP counts all investment as positive, whether or not that investment turns out to be productive in the longer run. So if a country pours resources into building pyramids, its GDP will rise sharply while they are under construction. But considering that pyramids, once complete, add nothing to the economy (except maybe generating tourist revenues four millennia later), it is difficult to claim that their construction furthers economic progress.

This consideration is especially important for China. Although the country's leaders aren't building pyramids, they may be doing the modern equivalent: building hundreds of expensive airports, high-speed rail lines and glittering financial centers that can never hope to generate a return on the investment involved. These projects add to GDP growth in the short term but do nothing to advance economic development. Similarly, GDP fails to account for the costs of environmental damage. All production is regarded as positive, even if the pollution it causes reduces the productive capacity of the agricultural sector and pushes up health care costs.

Again, this is important for China. A few years ago, the State Environmental Protection Administration did try to factor pollution costs into the country's GDP figures. But when it found that including environmental costs would have reduced growth by at least a third, the attempt was quickly discontinued. That shouldn't have been too surprising given that maintaining high headline GDP growth has become an obsession with China's leaders, who tout rapid growth as the justification for their authoritarian rule.

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Case study sources: South China Morning post: Back to business column. Article by Tom Hollard. Wednesday 25 May 2011.

CASE STUDY QUESTIONS

a. Using examples from the case, distinguish between economic growth and economic development. *qualitative*
(10 marks)

b. "GDP counts all investment as positive, whether or not that investment turns out to be productive in the longer run." Using examples, discuss the meaning of this statement. *quantitative*
(10 marks)

c. Outline any **five (5)** negative effects of economic growth. *pollution climate*
Food insecurity
congestion
Parents
(10 marks)

d. Suggest and support any **two (2)** strategies China can use to enhance economic development. *research on the needs of the people*
evaluations on projects that have been done
(10 marks)

Part B: Essay and structured questions

Answer any THREE questions

QUESTION 1

a. Discuss how any **five (5)** social environmental factors can affect the retail industry in Botswana. (Make use of relevant examples in your discussion). *social*
education
religion, health, subject
culture
gender roles
Attributes to us
(10 marks)

b. Illustrates and assess the effect of rent control law as an example of a price ceiling, (Highlight what happens to new investments on construction, the gainers and losers). *contractors*
landlord
other tenants
(10 marks)

QUESTION 2

a. Explain the **three (3)** motives of demanding money. (6 marks)

b. Highlight the **four (4)** responsibilities of all the central banks. (4 marks)

c. With the aid of a relevant diagram, discuss how open market operations and cash reserve requirement can be used to deal with the problem of demand-pull inflation. (10 marks)

QUESTION 3

[20 MARKS]

CASE STUDY QUESTIONS

- a. Using examples from the case, distinguish between economic growth and economic development. **(10 marks)**
- b. “GDP counts all investment as positive, whether or not that investment turns out to be productive in the longer run.” Using examples, discuss the meaning of this statement. **(10 marks)**
- c. Outline any **five (5)** negative effects of economic growth. **(10 marks)**
- d. Suggest and support any **two (2)** strategies China can use to enhance economic development. **(10 marks)**

Part B: Essay and structured questions

[60 MARKS]

Answer any THREE questions

QUESTION 1

[20 MARKS]

- a. Discuss how any **five (5)** social environmental factors can affect the retail industry in Botswana. (Make use of relevant examples in your discussion). **(10 marks)**
- b. Illustrates and assess the effect of rent control law as an example of a price ceiling, (Highlight what happens to new investments on construction, the gainers and losers). **(10 marks)**

QUESTION 2

[20 MARKS]

- a. Explain the **three (3)** motives of demanding money. **(6 marks)**
- b. Highlight the **four (4)** responsibilities of all the central banks. **(4 marks)**
- c. With the aid of a relevant diagram, discuss how open market operations and cash reserve requirement can be used to deal with the problem of demand-pull inflation. **(10 marks)**

QUESTION 3

[20 MARKS]



a. Assess the significance of income elasticity of demand. **(4 marks)**

b. Discuss how the government of Botswana can regulate monopolies in the country. **(4 marks)**

c. Given the following information, calculate inflation rate for 2017. **(2 marks)**

Year	CPI
2016	105
2017	107.1

d. Use the information provided below to answer the following questions.

Civilian population - 30 million

Employed - 15 million

Unemployed - 1.5 million

i. Define and calculate the size of the labour force. **(2 marks)**

ii. How many individuals are out of the labour force? **(1 mark)**

ii. Define and calculate the unemployment rate. **(2 marks)**

e. Explain the meaning of frictional unemployment and advice the government on how to deal with frictional unemployment. **(5 marks)**

QUESTION 4 [20 MARKS]

a. Distinguish between the following:

i. Elastic and inelastic. **(2 marks)**

ii. Short run and long run period. **(2 marks)**

iii. Monetary policy and fiscal policy. **(2 marks)**

iv. Intra-industry trade and inter-industry trade. **(2 marks)**

b. Evaluate the following notion, “protectionism or trade barriers like tariffs and quotas are a necessary evil which developed countries have to use to protect their economies.” **(12 marks)**

END OF EXAMINATION