

**BOTSWANA COLLEGE OF DISTANCE  
AND OPEN LEARNING**

**Diploma in Business Management**

**Economics II**  
**EC102**

**Sessional Examination**

**Marks: 100**

**Time allowed: 3 hours**

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**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**

**[10 MARKS]**

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

1. Economics is the study of \_\_\_\_\_.
  - A. how government officials decide which goods and services are produced.
  - B. how to invest in the stock market.
  - C. how society uses limited resources.
  - D. the role of money in markets.
  
2. Deciding how a society's products are distributed among its citizens answers the economic question of \_\_\_\_\_.
  - A. what products will be produced
  - B. who consumes the products produced
  - C. where will the products be consumed
  - D. how will the products be produced
  
3. To counteract inflation, the Bank of Botswana should do any of the following except \_\_\_\_\_.
  - A. buy securities on the open market and lower the discount rate
  - B. raise the reserve requirement and the discount rate
  - C. sell securities on the open market and raise the discount rate
  - D. buy securities on the open market and raise the discount rate
  
4. To make things simpler and focus attention on what really matters, economists \_\_\_\_\_.
  - A. Ignore all variables
  - B. Think at the margin
  - C. Use assumptions
  - D. Respond to incentives

5. According to the principle of diminishing returns, if the number of workers is increased beyond the point of diminishing returns, then the additional worker \_\_\_\_\_.
- A. decreases total output
  - B. increases total output by less than the amount of previous workers
  - C. increases total output by more than the amount of previous workers
  - D. increases total output by the same amount as previous workers
6. In the long run, what will occur in a perfectly competitive industry that is incurring losses?
- A. The government will subsidize the industry so that this never occurs
  - B. Some buyers will leave the market, demand will decrease, and price will rise.
  - C. Some firms will leave the industry, supply will decrease, and losses will disappear.
  - D. Some firms will enter the industry, supply will increase, and losses will disappear.
7. Dumping occurs when Botswana goods are sold for \_\_\_\_\_ overseas than \_\_\_\_\_.
- A. more, their Botswana cost of production
  - B. less, their Botswana cost of production
  - C. more, their Botswana price
  - D. less, their Botswana price
8. Which of the following factors will make the maintenance of a cartel more difficult?
- I. Production of identical products
  - II. A relatively large number of firms
  - III. The invention of substitutes for the cartel's product
  - IV. A well organised trade association
  - V. Rapid technical progress
- A. I and II only
  - B. II, III and V only
  - C. I, IV and V only

- D. None of the above
9. According to the quantity theory of money an increase in the money supply is most likely to lead to inflation if \_\_\_\_\_.
- A. The velocity of circulation decreases
  - B. The number of transactions decreases
  - C. There is deflation
  - D. The velocity of circulation and the number of transactions is constant
10. The size of the money multiplier increases \_\_\_\_\_.
- A. with an increase in the currency-deposit ratio
  - B. with a decrease in the reserve-deposit ratio
  - C. as the central bank undertakes open market sales
  - D. as the central bank decreases the discount rate

**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. The government not the central bank plays a pivotal role in buying and/or selling securities to/from financial institutions.
2. The liquidity ratio is one of the instruments of the instruments that are used in fiscal policy.
3. If there is a liquidity trap, an increase in the money supply would have a very small effect on interest rates.
4. Economic costs deal with the foregoing of the opportunity to produce alternative goods and services.
5. Price discrimination means selling the same product to different consumers or groups of consumers at the same prices.
6. The purpose of competition law is to limit the negative consequences of market power.
7. An indirect tax is a tax levied on persons/corporates.
8. Utility is easily measured and quantified.

9. Marginal cost is the increase in total cost that results from the production of one more unit of output.
10. A customs union occurs when a group of countries agrees to eliminate tariffs between themselves and set a common external tariff on imports from the rest of the world.

**SECTION C – SHORT ANSWER QUESTIONS**

**[30 MARKS]**

**Answer all questions**

1. For two commodities X and Y, explain how a utility maximising individual should react if the ratio of marginal utility divided by price for X is currently greater than the corresponding ratio for Y? State your assumptions. **(8 marks)**
2. Outline three properties of isoquants. **(6 marks)**
3. State 2 features of a firm in long run equilibrium in monopolistic competition that would be common to a firm in long run equilibrium under Monopoly. **(4 marks)**
4. List any four benefits of trade. **(4 marks)**
5. An economic student Gaone started a business of renting out umbrellas for 3 months in a year. She charges BWP5 for each umbrella per day. She hires umbrellas from somewhere and pays BWP3 000 for 50 of them.  
She is also charged BWP3 000 per month for using the beach by the local authority. If Gaone had a job she would have earned BWP4 000 for the whole period.  
Calculate the accounting and the economic profits, and advise Gaone if it pays for her to be in this business or if she should find a job elsewhere. **(8 marks)**



**SECTION D – Essay Questions**

**[50 MARKS]**

**Answer any two questions**

**QUESTION 1**

a) Outline and discuss the four macroeconomic policy objectives of all economies.

**(12 marks)**

b) Distinguish amongst the following schools of thought, - Keynesian, Monetarism and Structuralism.

**(13 marks)**

**QUESTION 2**

List and discuss the 4 bases used in classifying markets

**(25 marks)**

**QUESTION 3**

a) Define the marginal revenue productivity theory.

**(4 marks)**

b) Justify any four determinants of the demand for labour and any three determinants of the supply for labour.

**(21 marks)**