

BOTSWANA COLLEGE OF DISTANCE AND OPEN LEARNING

In collaboration with

ZIMBABWE OPEN UNIVERSITY

Diploma in Business Management

ECONOMICS II

EC102

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

(10 MARKS)

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

1. What does the Production Possibilities Frontier represent _____.
 - A. A catalog of all possible production options, represented as percentages.
 - B. The tradeoffs between production and consumption options
 - C. The tradeoffs between possible production levels for two goods
 - D. The amount that a society could produce if it devoted all its resources to producing one good

2. Jane allocates her income between candy and soda. Something happens that causes her budget line to shift toward the origin without a change in slope. What could have caused this change?
 - A. Jane's income decreased
 - B. The price of both candy and soda increased by the same percentage
 - C. Jane decided to buy more of both goods
 - D. Both A and B are true.

3. All of the following are idealized types of market structure except _____.
 - A. perfect competition
 - B. monopolistic competition
 - C. oligopolistic monopoly
 - D. pure monopoly

4. Under conditions of oligopoly, firms may collude in order to _____.
 - A. Avoid the outcome associated with the prisoner's dilemma
 - B. Increase competition
 - C. Solve the concentration ratio problem
 - D. Create a prisoner's dilemma for buyers

5. According to the principle of comparative advantage _____.
- A. Buyers should compare goods before signing a contract
 - B. Each country should specialize in the good it can produce most efficiently compared with its trading partner
 - C. Wealthier countries have significant advantages compared to poorer countries
 - D. Each country should produce at least some quantity of every important consumer good
6. Which of the following is *not* one of the characteristics necessary for commodity money to be used as money?
- A. It must be durable
 - B. It must be portable
 - C. It must be generally acceptable
 - D. It must be differentiated
7. Which of the following is *not* one of the ideas of Keynesian economics?
- A. An economy can experience insufficient demand
 - B. Governments can step in to help boost aggregate demand
 - C. Active use of fiscal policy can help keep aggregate demand high and employment rates up
 - D. Governments should focus on keeping the money supply steady
8. Which of the following is not a function of money?
- A. a medium of exchange
 - B. a unit of account
 - C. a shelter against inflation
 - D. a store of value
9. The term tariff, as used in international trade, refers to _____.
- A. a limit on the quantity of a good that can be imported into a country
 - B. the price of goods when they leave the producing country
 - C. a government payment to encourage exports

- D. a tax on imports.
10. The real value of money _____.
- A. is another word for the face value
 - B. reflects the purchasing power of the sum of money
 - C. matters less to people than its nominal value
 - D. is the same as its nominal value

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. Inflation is good, as it increases wages.
2. In a situation of monopolistic competition, no close substitutes are available.
3. Keynesians believe that government intervention in markets is harmful.
4. Direct taxes are collected by the seller on expenditure.
5. Money creation is a process by which commercial banks print money.
6. Allocative efficiency is attained when price is equal to the minimum average cost.
7. The bank rate is one of the instruments that is used in fiscal policy.
8. If there is a liquidity trap, an increase in the money supply would have a very small effect on interest rates.
9. Open market operations involve the purchase and sale of securities by the central bank as a means of changing government spending and taxation.
10. If a person has a comparative advantage in some activity, she must have an absolute advantage in that activity as well.

SECTION C – Short Answer Questions

30 MARKS

1. State the purposes of both the Competition Law and the Competitive Policy.
(4 marks)
2. Outline any four features of capital market instruments.
(8 marks)
3. List three advantages of an active money market in an economy and any three different financial risk types in the money market.
(6 marks)



4. Define the Marginal Rate of Technical Substitution? (2 marks)
5. Explain any five characteristics of an oligopoly industry. (10 marks)

SECTION D – ESSAY QUESTIONS [50 MARKS]

QUESTION 1 (25 marks)

Define and analyse the concept of Inflation, (giving at least four effects and three causes of inflation)?

QUESTION 2 (25 marks)

Describe any five methods that can be used in trade protectionism.

QUESTION 3 (25 marks)

Discuss any five reasons for the existence of international trade