

BOTSWANA COLLEGE OF DISTANCE AND OPEN LEARNING

In collaboration with

ZIMBABWE OPEN UNIVERSITY

Bachelor of Commerce Degree

Human Resources Management & Industrial Relations

PRINCIPLES OF ECONOMICS

EC211

SESSIONAL EXAMINATION

Marks – 100

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]

MULTIPLE CHOICE QUESTIONS

Answer ALL questions

Each question carries 1 mark

1. The basic economic problem is _____.
 - A. Abundance
 - B. Inefficiency
 - C. Scarcity
 - D. Many needs and wants

2. Which of the following will not cause a shift in the demand curve?
 - A. Higher consumer incomes
 - B. An increase in the price of a substitute good
 - C. An increase in the number of firms
 - D. An expected decrease in the price of the good

3. Which of the following is NOT an axiom (building block) of consumer theory?
 - A. Completeness
 - B. Rationality
 - C. Transitivity
 - D. Responsiveness

4. Goods market equilibrium is achieved at the point where _____.
 - A. Demand is equal to supply
 - B. The marginal rate of substitution is lowest

- C. Quantity demanded is equal to quantity supplied
- D. The budget line is tangent to the indifference curve

5. If marginal cost is equal to the average total cost _____.

- A. Average total costs are rising
- B. Average total costs are falling
- C. Average total costs are minimised
- D. Average total costs are maximised

6. to which of the following is the flat or horizontal demand curve pertinent?

- A. Monopoly
- B. Monopolistic competition
- C. Oligopoly
- D. Perfect competition

7. Which of the following is a cause of market failure?

- A. Externalities
- B. Debt
- C. Merit goods
- D. Inflation

8. Which measure of money supply is also known as “narrow money”?

- A. M1
- B. M2
- C. M3
- D. Coins and notes

9. An ideal tax systems should have all of the following attributes except

- _____.
- A. Fairness and ability to pay
 - B. Administrative simplicity
 - C. Efficiency
 - D. Positive

10. Which of the following is not a policy variable of fiscal policy?

- A. Budget
- B. Government spending
- C. Exchange rate
- D. Tax 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. Opportunity cost is the value of the next best alternative desired when a choice is made.
2. Market failure arises as a shortcoming of the command economy.
3. A shortage exists is a situation in which there is upward pressure exerted on prices, given a demand and supply curve.
4. An indifference curve is concave to the origin.
5. Collusive behaviour is a common feature of monopolistic competition market structure and not oligopoly.
6. The profit maximising rule under perfect competition is where marginal costs are equal to marginal revenue.
7. The marginal cost of producing a given level of output (Q) is equal to the change in total cost divided by the total quantity.

8. Real Gross Domestic Product is more important than nominal Gross Domestic Product as it shows the actual growth in output.
9. Demand deposits and long term loans are not part of the M3 measure of money supply.
10. The full time housewife and the discouraged are classified under the unemployed category of the labour force.

SECTION C

[30 MARKS]

SHORT ANSWER QUESTIONS

Answer ALL questions

1. “Cuba is one of the last standing command economies in the world”.
Which economic system is in place in Botswana, give sufficient justification? **(4 marks)**
2. Define a price ceiling and explain a scenario when a government can use it. **(4 marks)**
3. With the aid of diagrams, explain the difference between a change in quantity supplied and a change in supply. **(6 marks)**
4. Differentiate between average product (AP) and marginal product (MP). **(4 marks)**
5. Define the following.
- i) Fiat money **(2 marks)**
 - ii) Commodity money **(2 marks)**
6. List any **four** attributes of money. **(4 marks)**
7. Explain any **two** types of unemployment. **(4 marks)**

SECTION D

[50 MARKS]

ANSWER ANY TWO QUESTIONS FROM THIS SECTION.

QUESTION 1

25 MARKS

- a) Examine the three reasons (motives) why people demand money. **(9 marks)**
- b) Analyse four advantages of the free market economy. **(16 marks)**

QUESTION 2

25 MARKS

- a) Explain **four** direct controls used by the central bank to control money supply. **(16 marks)**
- b) Discuss three factors that influence the supply of labour. **(9 marks)**

QUESTION 3

25 MARKS

- a) Evaluate four difficulties that arise when comparing standards of living between countries. **(16 marks)**
- b) Outline three shortcomings of the free market system. **(9 marks)**

END OF EXAMINATION!!!