BOTSWANA COLLEGE OF DISTANCE AND OPEN LEARNING

In collaboration with

ZIMBABWE OPEN UNIVERSITY

Diploma in Human Resources Management

Diploma in Business Management

ECONOMICS 1

D-EC 01

SESSIONAL EXAMINATION

Marks – 100

Time Allowed **3 Hours**

Instructions to candidates

1. This examination contains three sections(A,B and C). Answer **all questions** in Section A and Section B, and **3 questions** in Section C
2. Answer all questions in the answer book provided
3. Start a question on a new page
4. Write legibly in grammatical English.
5. Use examples where possible to support your explanations

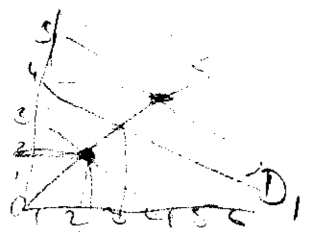
Section A **20 marks**

Answer ALL questions

1. What is **not** a factor of production?
   - A. Company shares. —
   - B. Machinery — Capital
   - C. Raw materials — Natural reso
   - D. Unskilled workers → labour

2. What is a feature of a mixed economic system but not a planned economic system?
   - A. It has both industrial and service sectors.
   - B. It has both large and small firms.
   - C. It has both public and private sectors.
   - D. It has both industrial and tertiary sectors.

3. Which of the following does a change in price cause?
   - A. The demand curve to shift to the right.
   - B. The demand curve to shift to the left.
   - C. The demand curve to remain the same.
   - D. Movement along the demand curve.



4. The financial director of a company adds up the expenditure on items such as rent, electricity, petrol and diesel fuel and raw materials. The director then divides that total by the firm's output. What has the director calculated?
   A. Average fixed cost
   B. Average variable cost
   C. Average total cost
   D. Marginal cost

$$\frac{MC}{\text{output}}$$

5. The total cost of production is the sum of -
   A. Marginal cost and variable cost
   B. Fixed cost and variable cost.
   C. Average fixed cost and average variable cost
   D. None of the above

6. In many developing countries people grow agricultural products. They sell what they produce to buy other goods.
   What is required for this system to work?
   A. Barter
   B. Money
   C. Ownership of land
   D. All of the above.

7. In a perfectly competitive market, firms maximise profits where:
   A. Average cost is equal to total revenue.
   B. Marginal cost is equal to total revenue.
   C. Marginal cost is equal to marginal revenue.
   D. Total revenue is greater than average cost.

8. A charity sold tickets at P5 each. A prize of P100 was given to the owner of the winning ticket. A student bought a ticket, but did not win. What is the opportunity to the student?
   A. P100
   B. What could have been bought with the P5
   C. What could have been bought with P100
   D. P95

9. More of a product is demanded at the same price. How would this be shown on a diagram of the demand curve?
   A. A downward movement along the demand curve
   B. A leftward shift in the demand curve
   C. A rightward shift in the demand curve
   D. An upward movement along the demand curve

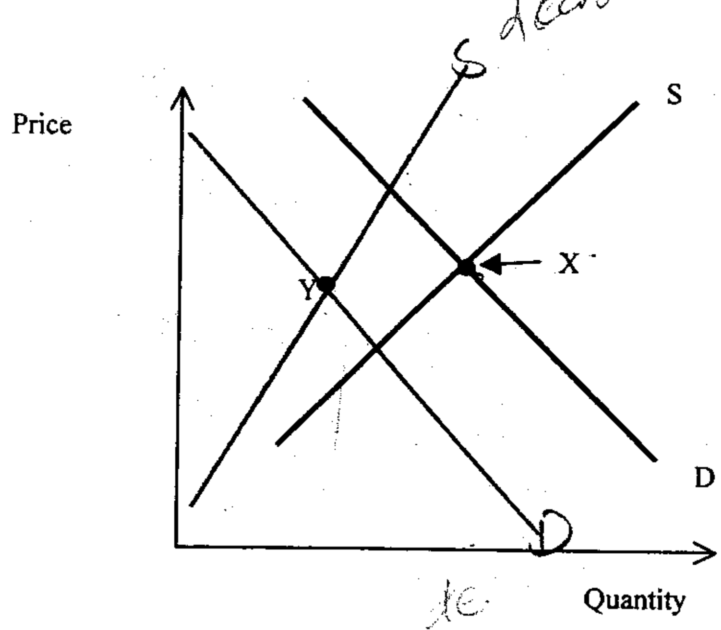
10. Which type of income is earned by the factor of production enterprise?
    A. Interest
    B. Profit
    C. Rent
    D. Wages

11. Which one of the following is not a determinant of supply?
    A. Price of the good or service,
    B. Price of alternative outputs
    C. The type of the business
    D. Changes in technology

12. What must a firm do to make as much profit as possible?

A. Make revenue and costs equal
B. Maximize the difference between total revenue and total cost
C. Maximize revenue
D. Minimize change in costs of production.

13. The diagram shows the market for a product. The equilibrium is at X.



Which combination of demand and supply changes would result in new equilibrium in the area marked Y?

A. Decrease in demand and decrease in supply
B. Decrease in demand and increase in supply
C. Increase in demand and decrease in supply
D. Increase in demand and increase in supply

14. What can a small firm do more easily than a large firm?

    A. Easily adapt to changing fashions
    B. Have specialized managers
    C. Raise finance
    D. Undertake research and development

15. A high proportion of people in a developing country have very low incomes. Which government policy would help reduce this level of poverty?

    A. Decreasing the tax on goods and services
    B. Decreasing housing subsidies
    C. Increasing import duties
    D. Increasing inheritance tax

16. What lowers the cost of producing goods for exports?

    A. A quota
    B. A subsidy
    C. A tariff
    D. An embargo

17. The Law of Supply states that:

    A) producers should only produce what they can sell.
    B) producers should only sell the items when the price is right.
    C) there is a positive relationship between price and quantity supplied, *ceteris paribus.*
    D) producers are legally required to make necessary items available in the marketplace.

18. The point on the production possibilities curve indicates:

  A. Efficiency.
  B. Inefficiency.
  C. Improvement in technology.
  D. Opportunity cost.

19. The idea in economics that "there is no such thing as a free lunch" means that -

  A. The marginal benefit of such a lunch is greater than the marginal cost.
  B. Business cannot increase their market share by offering free lunches
  C. Scarce resources have alternative uses or opportunity costs
  D. Consumers are irrational when they ask for a free lunch

20. Following an increase in income, a consumer reduced the comsumption of good X. What kind of good is good X?

  A. Necessity.
  B. Luxury good.
  C. Normal good.
  D. Inferior good.

(Total 20 marks)

Section B **20 marks**

Answer ALL questions

State clearly whether each of the following statements, (a) – (c), is TRUE or FALSE. Explain clearly the reasons for your choice of true or false.

(a) "Average Variable Cost Curve reaches its minimum before Average Total Cost Curve reaches its minimum." F ? **(3 marks)**

(b) "GDP at market prices consists of GDP at factor cost plus indirect taxes and minus subsidies. T
T **(3 marks)**

(c) "Price discrimination is the selling of a product to different buyers at different prices when the price differences are not justified by differences in cost. T **(3 marks)**

For each of the following questions, (d) – (f), give short and clear answers.

(d) Explain explain the term 'market equilibrium'. **(4 marks)**

(e) Define the income elasticity of demand, and explain whether the sign of the elasticity is positive or negative if the good is Inferior. **(3 marks)**

(f) Differentiate between Microeconomics and Macroeconomics. **(4 marks)**

(Total 20 marks)

e) Income elasticity of demand measures the sensitivity of the quantity demanded to change in income.
- A negative income elasticity implies that an increase in income will lead to a decrease in the quantity demanded of a product. ~~The~~ This goods are called inferior.

f) Microeconomics is the branch of economics that is concerned with actions of individual economic units like people and firms while macroeconomics studies the whole economy of a country as a unit. The behaviour of the economy is the focus of study in as far as issues like employment, inflation

Section C **(60 marks)**

Answer any THREE questions.

QUESTION 1

(a) Define each of the following terms:

i. Gross Domestic Product **(2 marks)**

is the primary measure of a country's performance in terms of annual total output of goods and services or aggregate output.

ii. Gross National Product **(3 marks)**

The total final output over which domestic residents have claim, whether production is located at home or abroad

iii. Net National Product **(3 marks)**

(b) State and explain the three methods of measuring national income. **(9 marks)**

i NPK

Net Domestic Product
National Income
Personal Income

(c) Explain the distinction between real and nominal measures of national income. **(3 marks)**

(Total 20 marks)

Monetary or nominal GDP is the same as GDP at current value. It is the actual full value of the GDP for a particular year.
Real GDP is expressed as a relative value, that is it has to be expressed as a comparison to the value in another year, called the base year.

QUESTION 2

(a) Show the AVC, ATC, AFC and MC curves on the same diagram and fully explain the diagram. **(12 marks)**

(b) Using Supply and Demand analysis:

(i) explain how a market moves to equilibrium from an initial position of excess demand; **(4 marks)**

(ii) explain what happens to equilibrium price and quantity traded in a market when the price of a substitute good rises. **(4 marks)**

(Total 20 marks)

QUESTION 3

Study the following statement and answer the questions that follow.

Show your calculations where applicable.

In 1999 country X had a population of 9 million, with national income per capita of P243. In 2009 the population was 12 million with a national income per capita of P255. The general price index increased from 100 in 1999 to 153 in 2009.

(a) Calculate country X's national income for 1999. **(4 marks)**

(b) What was the real income per capita in 1999? **(2 marks)**

(c) Calculate the real national income for 2009 using 1999 as a base year. **(6 marks)**

(d) Comment on the country X's economic position in 1999 in comparison with that of 2009. **(4 marks)**

(e) What should the income per capita in 2009 be to maintain the purchasing power of 1999? **(4 marks)**

(Total 20 marks)

QUESTION 4

(a) Evaluate at least five functions of capital? **(10 marks)**

(b) Examine the weaknesses of relying on 'income per capita' as a measure of well-being for an *individual* country. **(10 marks)**

(Total 20 marks)

END