

**BOTSWANA COLLEGE OF DISTANCE
AND OPEN LEARNING**

**Diploma in Business Management
Diploma in Human Resources Management**

**Economics I
EC111**

Sessional Examination

Marks: 100

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 - MULTIPLE CHOICE QUESTIONS

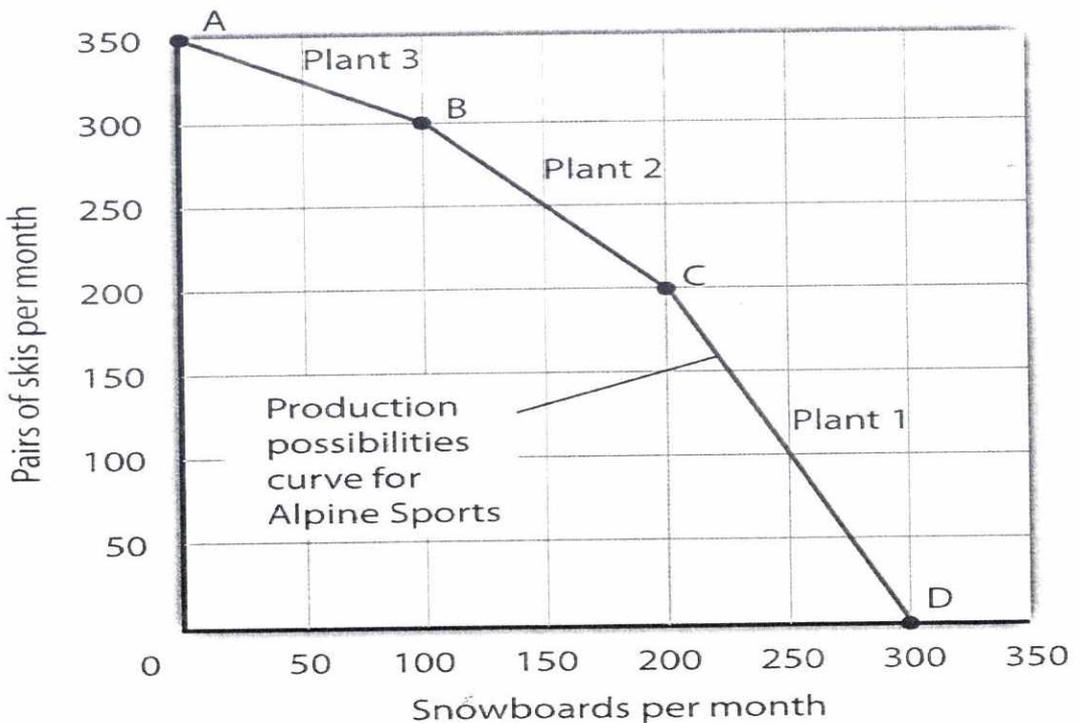
[10 MARKS]

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

1. Economists study the best way to allocate _____ .
 - A. Wants.
 - B. Needs.
 - C. Resources.
 - D. Essentials.

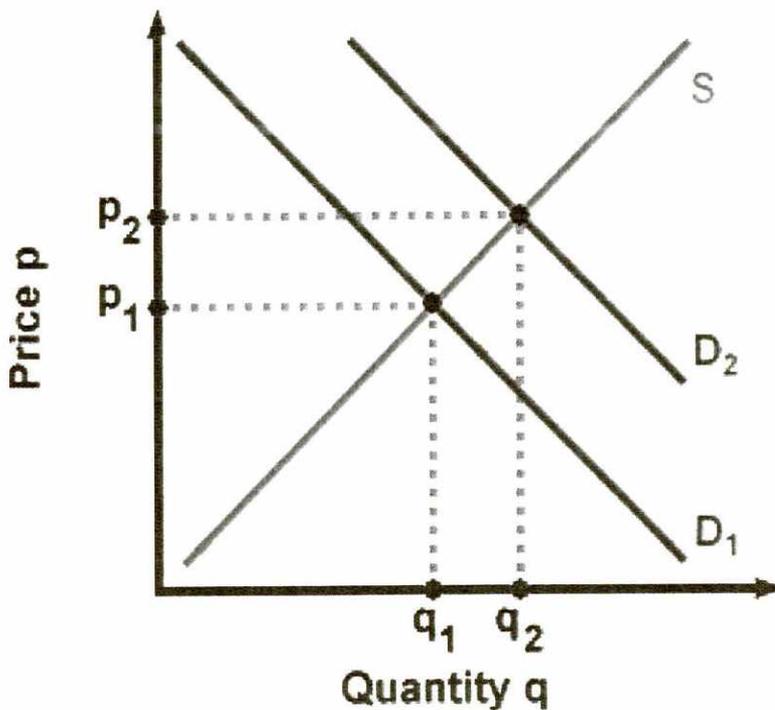
2. Which one of the following is a macroeconomic issue?
 - A. How prices are determined on the market.
 - B. Level of total unemployment in the country.
 - C. Changes in a consumer's taste and habits.
 - D. Behavioural patterns of a consumer.

Use the following diagram to answer question 3.



3. What is the opportunity cost of moving from point B to C?
- A. Sacrificed 100 units of skis per month.
 - B. Gained 100 units of snowboards per month.
 - C. Sacrificed 200 units of skis per month.
 - D. Gained 200 units of snowboards per month.
4. Goods that can replace or be used as alternatives for other goods are known as _____.
- A. Complimentary goods.
 - B. Normal goods.
 - C. Substitute goods.
 - D. Inferior goods.

Use the following diagram to answer question 5:



5. What factor would cause the demand curve above to shift to the right from D_1 to D_2 ?
- A. Bad weather conditions.
 - B. Increase in income.
 - C. Advanced technology.
 - D. Increase in cost of production.
6. An economy experiences inflation when _____.
- A. The investments are rising.
 - B. The population is rising.
 - C. The general price level is rising.
 - D. The output is rising.
7. Which one of the following does not positively influence economic development?
- A. Inflation.
 - B. Population growth.
 - C. Natural resources.
 - D. Capital infrastructure.
8. Suppose that in an economy, aggregate demand remains remain fixed but aggregate supply shifts to the left. Which of the following will occur?
- A. Prices rise and output also rises
 - B. Prices fall and output also falls
 - C. Prices rise and output falls.
 - D. Prices fall and output rises.
9. Gross National Product (GNP) = _____.
- A. $GDP + \text{taxes} - \text{subsidies}$
 - B. $GDP - \text{taxes} + \text{subsidies}$
 - C. $GDP - \text{net factor payments to the rest of the world}$
 - D. $GDP - \text{consumption of fixed capital}$

Given that $GDP = C + I + G + (X - Z)$ and the following figures:

Government spending P10 000

Net exports P4 000

Subsidies P1 500

Investment spending P12 000

Depreciation P3 000

Consumer spending P20 000

10. The Gross Domestic product (GDP) is equal to _____.

A. P49 000.

B. P46 000.

C. P50 500.

D. P42 000.

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. In economics, the four main factors of production are land, capital, labour, and machinery.
2. One of the functions of an entrepreneur is to accept risk and determine the remuneration of the factors of production.
3. In a free market economy, resource allocation is managed primarily by the government.
4. Supply can be defined as the desire of the consumer to have something backed up with willingness and ability to pay for it.
5. Price elasticity = $\frac{\text{The percentage change in the price}}{\text{The percentage change in quantity demanded}}$
6. A firm producing under conditions of perfect competition is able to make abnormal/ supernormal profits in the long run.
7. Nominal GDP is the same as real GDP.
8. Economic development is the reduction or elimination of poverty, inequality and unemployment in a growing economy.
9. The economy is in equilibrium when total spending equals total output.
10. One of the goals of macroeconomics is economic growth.

SECTION C – SHORT ANSWER QUESTIONS**[30 MARKS]****Answer ALL questions.**

1. Differentiate between the following:

- i. Microeconomics and macroeconomics **(2 marks)**
- ii. Fixed costs and variable costs **(2 marks)**

2. List any **three (3)** determinants of demand and any **two (2)** determinants of supply. **(5 marks)**

3. With the aid of a diagram, explain the law of demand. (5 marks)
4. What are the **three (3)** key questions relating to an economy? (3 marks)
5. Differentiate between a free market economy and a command economy. (2 marks)
6. Outline any **four (4)** characteristics of a firm operating in perfect competition. (4 marks)
7. Briefly discuss any **two (2)** measures the government of Botswana can put in place to solve the problem of unemployment. (4 marks)
8. Using the Aggregate Demand – Aggregate Supply (AD-AS) model illustrate and identify the macroeconomic equilibrium. (3 marks)

SECTION D ESSAY AND STRUCTURED QUESTIONS**[50 MARKS]****Answer any two questions.****QUESTION 1****[25 marks]**

a) Using relevant diagrams, explain the following concepts in elasticity of demand:

- i. Perfectly inelastic
- ii. Relatively inelastic
- iii. Perfectly elastic
- iv. Relatively elastic.

(20 marks)

b) The following information shows quantity demanded when prices of bread were changed from P3 to P4:

Price	Quantity
3	600
4	400

- i. Calculate price elasticity of demand. (3 marks)
- ii. Interpret the answer in (i) above. (2 marks)

QUESTION 2

[25 marks]

Wheat	Sugar
100	0
90	20
70	40
40	60
0	80

- a) Use the information in the table above to answer the following questions:
- i. Draw a production possibility curve (PPC). **(5 marks)**
 - ii. Use the PPC to explain scarcity, choice and inefficiency. **(6 marks)**
 - iii. List any three factors which can shift the PPC outwards. **(3 marks)**

b) Assume you are a production supervisor at a large factory. A firm in production can either use capital-intensive methods or labour-intensive techniques. Using relevant examples, clarify the meaning of the two methods to your new operations manager. **(4 marks)**

c) Complete the missing gaps A - F in the following table:

Quantity	Fixed cost	Variable cost	Total cost	Marginal cost
0	300	B	300	-
1	300	500	800	500
2	A	800	1100	F
3	300	C	1300	200
4	300	1150	D	G
5	300	1300	1600	150
6	300	1500	E	200

QUESTION 3

[25 MARKS]

- a) Distinguish between economic growth and economic development. **(4 marks)**
- b) You are a Chief Economist in the Ministry of finance. Write a report to your supervisor detailing how the following factors can be manipulated in order to enhance economic growth of Botswana:
- i. Labour
 - ii. Capital
 - iii. Entrepreneurship
 - iv. Natural resources **(16 marks)**
- c) With the aid of a diagram, explain the income and expenditure model. **(5 marks)**

END OF EXAMINATION

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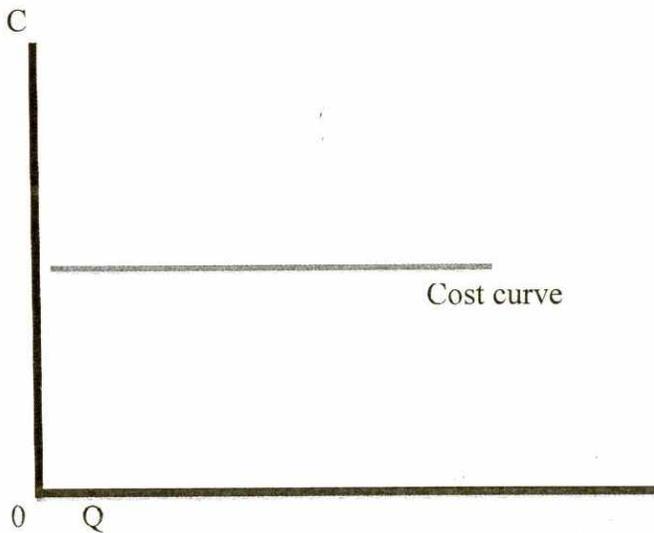
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4. All of the following are determinants of supply except.
- a. Size of the household.
 - b. Price of inputs.
 - c. Cost of production.
 - d. Number of firms.

Use the following diagram to answer question 5:



5. Which cost curve is shown above?
- a. Variable cost.
 - b. Marginal cost.
 - c. Fixed cost.
 - d. Total cost.
6. What is the implication of price elasticity of demand being equal to one?
- a. Perfectly elastic
 - b. Unit elastic.
 - c. Inelastic.
 - d. Perfectly inelastic.

10. Which school of thought was introduced in the 1980s by economists David Romer, Olive Blanchard, Greg Mankiw and others?

- a. Keynesian.
- b. New Keynesian.
- c. Classical.
- d. New classical.

4. What are the **three (3)** key characteristics of a monopoly market structure?

(3 marks)

5. The following information shows quantity demanded when the price of bread was changed from P3 to P4:

Price	Quantity
3	600
4	400

i. Calculate price elasticity of demand.

(3 marks)

ii. Interpret the answer in (i) above.

(2 marks)

6. Outline any **two (2)** functions of an entrepreneur?

(4 marks)

7. Briefly discuss any **two (2)** shortcomings of using GDP as a measure of economic performance and welfare.

(4 marks)

8. What can the economy of Botswana do to increase economic growth and economic development?

(2 marks)

SECTION D ESSAY AND STRUCTURED QUESTIONS

[50 MARKS]

Answer any two questions.

QUESTION 1

(25 marks)

a. Identify any **four (4)** determinants of demand and any **three (3)** determinants of supply

(7 marks)

b. Using relevant diagrams differentiate between a change in quantity demanded (movement along the demand curve) and a change in demand (shift of the demand curve).

(12 marks)

c. Using relevant examples, briefly explain the effect of the following on quantity demanded:

i. Increase in the price of a substitute.

ii. Increase in the expected future price.

iii. Decrease in the price of a complimentary product.

(6 marks)