

Botswana College of Distance And Open Learning

In collaboration with

Zimbabwe Open University

Economics II

Sessional Examination

(2009)

Duration: 3 Hours

Marks: 100

Instructions to Candidates:

1. There are **Three** Sections; **A, B** and **C**.
 2. Answer **all** questions in Sections **A** and **B**, and **any two** questions in Section **C**.
 3. Write your answers for each Section on a new page.
 4. Write neatly and use grammatical English.
 5. Write on the booklets provided.
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Section A**[30 Marks]****Choose the letter corresponding to the right statement****(1 mark each)**

1. Participation of many developing countries in the World Trade Organisation is weak because they
 - A. export raw materials only.
 - B. fail to pay membership subscription, hence they cannot benefit from World Trade Organisation.
 - C. lack leadership and capacity at home, hence trade policies are often determined by donors and international organisations.
 - D. are not members of International Monetary Fund and World Bank, hence they cannot finance their production capacity/investment to enable them to participate effectively in the World Trade Organisation.

2. Members of Southern African Customs Union are
 - A. Botswana, Namibia, South Africa and Lesotho
 - B. Botswana, South Africa, Zimbabwe and Swaziland
 - C. South Africa, Namibia, Botswana and Angola
 - D. South Africa, Botswana, Malawi and Lesotho

3. One of the costs of trade protectionism is
 - A. loss of culture as different nationalities interact.
 - B. high import prices because imports restrictions protect local producers at the expense of cheap imports.
 - C. there are no costs due to trade protectionism as it encourages local production.
 - D. loss of morale as local producers consider their products inferior and as a result close business.

4. Free trade is a market in which trade in goods and services
 - A. between or within countries takes place without tax levies.
 - B. crosses borders without checkpoints.
 - C. are freely imported.
 - D. between or within countries takes place without hindrance from government.

5. Trade based on absolute advantage means that one country
 - A. is more efficient than another in producing one commodity but less efficient than another country in producing a second commodity.
 - B. trades with another country because one has surplus and the other country has shortage in the production of one commodity.
 - C. is richer than the other country, therefore the rich country trade with the poor country.
 - D. is developed and the other country is developing, therefore the developed country exports its products to developing country.

6. Expansionary fiscal policy is applicable when the
- A. country is operating at its full potential output, hence the government purchases should be expanded and taxes should be reduced leaving consumers with more disposable income.
 - B. economy is operating beyond its potential output, hence the government purchases should be reduced and taxes should be increased.
 - C. economy is operating below its potential output, hence the government purchases should be expanded and taxes should be reduced.
 - D. economy is operating below its potential output, hence the government purchases should be reduced and taxes should be increased.
7. Sources of government income are
- A. exports, taxation, borrowing, service charges; state assets sales proceeds.
 - B. exports, labour, rents, interests and profits
 - C. exports, service charges, national insurance contributions; and state assets sales proceeds
 - D. taxation, borrowing, national insurance contributions, service charges; and state assets sales proceeds.
8. Which type of tax can be described as; direct, progressive, economical and a disincentive to investment?
- A. Income tax
 - B. Value added tax
 - C. Corporation tax
 - D. Excise duties
9. A deflationary budget is characterised by government
- A. income exceeding government expenditure, and total demand falling within the economy.
 - B. spending being greater than government income, and total demand increasing within the economy.
 - C. income spending and income are the same and total demand in the economy is constant.
 - D. is financing its expenditure by taxing individuals and companies excessively.
10. Two major objectives of monetary policy are to
- A. reduce inflation and boost economic growth.
 - B. boost economic growth and to raise tax revenue.
 - C. reduce inflation and create employment.
 - D. increase lending and consumption.

11. Inflation is defined as
- A. an increase in the selling prices of goods and services.
 - B. an increase in the production costs of inputs.
 - C. an increase in the prices of imports and exports.
 - D. a persistent rise in the general level of prices.
12. The following are some of the major objectives of macroeconomics except
- A. low unemployment.
 - B. a satisfactory rate of economic growth.
 - C. low inflation.
 - D. borrowing to finance economic developments.
13. According to Keynesians the following are the three motives for holding money except
- A. transactions motive.
 - B. precautionary motive.
 - C. accidental motive.
 - D. speculative motive.
14. Commercial banks are required to hold certain percentage of their short term liabilities in cash at the Bank of Botswana and this is known as
- A. profits reserve.
 - B. cash reserve.
 - C. liquid asset.
 - D. liquidity ratio.
15. The types of financial risks are
- A. investment risk, liquidity risk, interest rate risk and inflation risk.
 - B. inflation risk, currency risk, production risk and export risk.
 - C. taxation risk, production risk, interest rate risk and liquidity risk.
 - D. investment risk, interest rate risk, currency risk and liquidity risk.
16. Call accounts are an example of
- A. bonds in the money market.
 - B. securities in the money market.
 - C. financial instruments that are commonly traded.
 - D. loans to high profile customers.
17. Which type of the market structure can apply price discrimination?
- A. Oligopoly
 - B. Monopoly
 - C. Perfect competition
 - D. Monopolistic competition

18. One of the key economic problems facing every economy is
- marginal labour productivity in the whole economy.
 - how to produce at equilibrium.
 - distribution of income among the factors of production.
 - how to calculate economic profit.
19. An increase in consumer income may result in
- inflation in the economy.
 - luxurious lifestyle.
 - shift of the budget line.
 - an increase in taxes paid to government.
20. Market sharing cartel is when firms agree to
- operate as one and charge the highest price possible for their produce.
 - share the market, but keep a considerable degree of freedom in some decisions.
 - have one warehouse from which to distribute their produce to the market.
 - share market based on percentage of their membership contribution.

Indicate whether the statement is TRUE or FALSE.

(1 mark each)

- Government debt differs from private debt because the government is not required to post any collateral to guarantee payment of the loan.
- A large national debt is a problem if taxes have to be increased to meet interest payment.
- Taxation is voluntary levies charged by the government on income and expenditure.
- Monetary policy is the use of money or its cost, the interest rate to fine-tune some economic variables.
- Bank of Botswana is charged with the implementation of monetary policy.
- Comparative advantage is when one country produces a good or service at a lower opportunity cost than another country.
- Unemployment means anyone in the economy who does not have a job.
- It is impossible to have equilibrium in the money market.
- Open market operations are the purchases or sales of securities by the central bank.
- Monopoly arises as a situation in the market in which there is one seller of a product or service with no close substitute.

Section B

[30 Marks]

Answer **all** questions in this section,

Question 1

[10 marks]

- The business's main objective is to make profit. What are the four functions of profits in the business? [8]
- What is the shut down role for profit maximisation firm? [2]

Question 2 (10 marks)

- (a) What are three benefits of the multinational corporation on the host economy? [6]
(b) What are four factors that may lead to monopoly in the economy? [4]

Question 3 (10 marks)

- (a) What are the costs of unemployment in the economy? [6]
(b) What are the functions of money? [4]

Section C [40 Marks]

Answer **any two** questions in this section.

Question 1 (20 marks)

Discuss the constraints facing small businesses/firms.

Question 2 (20 marks)

- (a) What is monopolistic competition?
(b) Why do firms operating under monopolistic competition only make profits in the short run?

Question 3 (20 marks)

- (a) What is an oligopoly?
(b) Discuss the characteristics of an oligopoly firm.

Question 4 (20 marks)

- (a) What is the money market?
(b) What are the **five** conditions necessary for money market?

Question 5 (20 marks)

- (a) What is international trade?
(b) Discuss the advantages of international trade.