

BOTSWANA COLLEGE OF DISTANCE AND OPEN LEARNING

In collaboration with

ZIMBABWE OPEN UNIVERSITY

Diploma in Business Management

ECONOMICS II

EC121

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. Equilibrium price is a price that _____.
 - A. will tend to rise because of a surplus
 - B. is associated with excess demand
 - C. equates the amount supplied with the amount demanded
 - D. is equal to the equilibrium quantity.

2. A distinctive feature of monopolistically competitive markets is _____.
 - A. product differentiation
 - B. homogeneous products
 - C. existence of a few buyers
 - D. existence of a few sellers.

3. Successful price discrimination requires _____.
 - A. competitive markets and the availability of many substitutes
 - B. at least two different markets and the ability to prevent arbitrage between the two
 - C. competitive markets with product differentiation
 - D. none of the above.

4. If the price index for 2010 is 100, and for 2011 the price index is 126, then what is the inflation rate for that time period?
 - A. 5%
 - B. 6%
 - C. 26%
 - D. -26% (minus).

5. Other things being equal, an expansionary monetary policy would _____.

- A. cause a contraction in fiscal policy
 - B. reduce the price level
 - C. shift the aggregate demand curve to the right
 - D. shift the aggregate demand curve to the left.
6. The scarcity of resources problem necessarily requires _____.
- A. government to allocate all resources among all alternative uses
 - B. people to reduce their living standards
 - C. people to make choices
 - D. none of the above.

Consider the following table.

Country	Opportunity Cost of Producing a Car	Opportunity cost of producing a ton of food
South Africa	2 tons of food	0.5 cars
Botswana	1 ton of food	1 car

7. If the South Africa and Botswana are to trade based on their comparative advantage, then which of the following is consistent with the information in the table?
- A. The South Africa should allocate 100% of its production capacity to cars; Botswana should allocate 100% of its production capacity to food.
 - B. The South Africa should allocate 100% of its production capacity to food; Botswana should allocate 100% of its production capacity to cars.
 - C. The South Africa should allocate 100% of its production capacity to cars; Botswana should allocate 50% of its production capacity to cars and 50% to food.
 - D. The South Africa should allocate 20% of its production capacity to cars and 80% to food; Botswana should allocate 50% of its production capacity to food and 50% to cars.
8. Tebogo consumes two goods, X and Y, and is currently consuming optimally – that is, in a utility maximising fashion. Her marginal utility (MU) from another unit of X

- is 5 and her MU from another unit of Y is 10. If X costs P1 per unit and Tebogo's income is P100, what can we conclude about the price of Y?
- A. It must be P0.50.
 - B. It must be P1
 - C. It must be P2
 - D. There is not enough information to identify the price of Y exactly.
9. If the substitution effect of a price change moves quantity demanded in the opposite direction to the income effect, then we can tell that _____.
- A. the good is a normal good
 - B. the price of the good must have risen
 - C. the price of the good must have fallen
 - D. the good is an inferior good.
10. A deposit in a cheque account is _____.
- A. a medium of exchange and a store of value
 - B. a medium of exchange, but not a store of value
 - C. a store of value, but not a medium of exchange
 - D. neither a medium of exchange nor a store of 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. Keynesians believe there is a close relationship between money demand and interest rates.
2. Monetary policy is the manipulation of the volume of credit, interest rates and other monetary variables including taxes.
3. VAT has a proportional burden.
4. Budget deficit is the amount by which government's revenue exceeds its expenditure.
5. Isoquant line shows the various combinations of factor inputs that yield the same total cost.

6. Explicit costs are money payments that the self-employed could have earned in their best-paid employment.
7. Moral suasion is one of the instruments that is used in monetary policy.
8. Multinational corporations tend to affect competition through impact on the rate of technological change and the adoption of the new management techniques.
9. The demand curve for labour is derived from the marginal revenue product curve.
10. *Mutatis mutandis* means that the firm takes into account all reactions induced by or concurrent with price adjustments.

SECTION C – Short Answer Questions

[30 MARKS]

1. Define market demand for labour and state any four factors that would lead to a shift in the demand for labour. **(6 marks)**
2. Why do oligopolists prefer to use non-price competition rather than price competition? **(4 marks)**
3. Explain the following:
 - a) Why an indifference curve is convex to the origin **(5 marks)**
 - b) Why a higher indifference curve represents a higher level of satisfaction? **(5 marks)**
4. How does money solve the problem of double coincidence of wants? **(4 marks)**
5. How do economists differ from accountants in the use of the term profit ? **(6 marks)**

SECTION D – ESSAY QUESTIONS

[50 MARKS]

ANSWER ANY TWO QUESTIONS FROM THIS SECTION.

QUESTION 1

(25 marks)

What are the economic and social costs of high inflation levels?

(25 marks)

QUESTION 2

(25 marks)

2. a) What are the possible advantages of free trade?

(10 marks)

b) In light of these advantages, why do so many barriers to trade exist?

(15 marks)



QUESTION 3

(25 marks)

List and explain the forms of regulation in Botswana.

(25 marks)