

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. A firm produces its product using both capital and labour. When it does not change its capital usage, but doubles its labour input, its output increases by less than 50 percent. Which of the following is the most likely explanation of this finding?
 - A. the principle of opportunity cost
 - B. the principle of diminishing returns
 - C. the marginal principle
 - D. the spillover principle

2. The law of scarcity can best be used to explain which of the following?
 - A. why people are willing to accept money as a medium of exchange in commercial transactions
 - B. why most property is privately owned in mixed market economies
 - C. why periods of economic expansion are generally followed by periods of economic contraction
 - D. why consumers have to consider the opportunity costs of the choices they make

3. Which of the following is an important component of a monetary policy?
 - A. establishing reserve ratios for depository institutions
 - B. conducting audits of commercial banks
 - C. monitoring the investments of financial institutions
 - D. setting margin rates for securities accounts

4. A government wishing to reduce the level of unemployment through the use of fiscal policy would be most likely to _____.
 - A. lower interest rates
 - B. decrease the size of the budget surplus
 - C. increase interest rates
 - D. encourage a depreciation of the exchange rate

5. A shift to the right of the supply curve for a product can be caused by _____.
- A. a rise in popularity of the product
 - B. a rise in costs of production
 - C. a tax on the product
 - D. the entry of new firms into the industry
6. A market is defined as being in equilibrium when _____.
- A. there is maximum output at minimum cost
 - B. prices are at their lowest possible level
 - C. there is no tendency for the market price to change
 - D. consumer satisfaction is maximised.
7. The law of diminishing returns assumes that _____.
- A. there is at least one fixed input
 - B. all inputs are changed by the same percentage
 - C. additional inputs are added in smaller and smaller increments
 - D. all inputs are held constant.
8. A country that has an abundance of cheap labour will tend to _____.
- A. import goods that are produced using a lot of labour
 - B. refrain from international trade entirely
 - C. export goods that are produced using a lot of labour
 - D. export goods that are produced using little labour.
9. Comparative advantage is the basis for _____.
- A. efficient production
 - B. international trade
 - C. economies of scale
 - D. the capital-labor tradeoff

10. Implicit cost is equal to _____.
- A. business profit minus economic profit
 - B. business profit plus economic profit
 - C. economic profit minus business profit
 - D. economic profit minus explicit cost

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. An indifference curve represents bundles of goods that a consumer ranks from most preferred to least preferred.
2. Securities are always registered in the name of the purchaser.
3. The money market is a market in which short-term cash surpluses are traded.
4. Capital markets consist of the primary market and the secondary market.
5. The capacity of a bank to make money is dependent on the credit multiplier process and its open market operations.
6. M2 includes M1 plus short, medium and long term deposits.
7. Direct taxes are levied on a thing and are paid by an individual by virtue of association with that thing.
8. Fiscal policy is concerned with changes in the government expenditure and interest rates.
9. Unemployment is the pool of people above a specified age who are without work, are currently unavailable for work and are seeking work during a period of reference.
10. A tax should be flexible so that the government can use tax changes to help control the level of demand in the economy.

SECTION C – Short Answer Questions**30 MARKS**

1. Define the following terms:
 - a. Utility (1 mark)
 - b. Total Utility (1 mark)
 - c. Marginal Utility (1 mark)
 - d. Util (1 mark)
 - e. Law of diminishing marginal utility (2 marks)
 - f. Cardinal utility (1 mark)
 - g. Ordinal utility (1 mark)
 - h. Indifference curve (2 marks)

2. Describe two features of monopolistic competition that differentiate it from monopoly. (5 marks)

3. Give an example of an industry operating under conditions of an Oligopolistic market structure and explain why it is classified under that structure. (10 marks)

4. State five ways that can be used by a government to finance national debt? (5 marks)

SECTION D – ESSAY QUESTIONS**[50 MARKS]****Answer any two questions.****QUESTION 1****(25 marks)**

Analyse the causes and effects of Inflation on an economy.

(25 marks)**QUESTION 2****(25 marks)**

List and explain the forms of regulation in Botswana.

(25 marks)**QUESTION 3****(25 marks)**

Explain the Quantity theory of Money and how it explains the relationship between inflation and money supply. Illustrate what you consider to be the weaknesses of the Quantity theory of Money.

(25 marks)

