

**BOTSWANA COLLEGE OF DISTANCE AND OPEN LEARNING**

**In collaboration with**

**ZIMBABWE OPEN UNIVERSITY**

**Bachelor of Commerce Degree**

**Human Resources Management & Industrial Relations**

**PRINCIPLES OF ECONOMICS**

**PE101**

**SPECIAL EXAMINATION**

**Marks – 100**

Time Allowed: **3 Hours**

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**Instructions to candidates**

1. This examination contains three sections(A,B, C and D). Answer **all questions** in Section A, B and C, and **any 2 questions** in Section D
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

(10 MARKS)

MULTIPLE CHOICE QUESTIONS

Each question carries 1 mark

1. If one person's consumption of a good diminishes other people's use of the good, the good is said to be \_\_\_\_\_.
  - A. Non - rivalry
  - B. excludable
  - C. a common resource
  - D. a good produced by a monopoly
  
2. The graph of a budget constraint shows the quantities of two normal goods,  $X$  and  $Y$ , that a consumer can purchase given the consumer's income and the prices of the two goods. If the consumer's income increases, *ceteris paribus*, the budget line will \_\_\_\_\_.
  - A. shift outward and to the right
  - B. pivot outward and to the right along the  $X$ -axis indicating a greater quantity of  $X$  can be purchased
  - C. pivot outward and to the right along the  $Y$ -axis indicating a greater quantity of  $Y$  can be purchased
  - D. shift inward and to the left
  
3. Suppose a firm has P1500 of variable costs and P500 of fixed costs when it produces 500 units of output and sells the output for P10 per unit. Average total cost is equal to \_\_\_\_\_.
  - A. P4.
  - B. P40.
  - C. P2.
  - D. P1.

4. Suppose that marginal cost is P10 and average variable cost is P10. For the next unit of output produced marginal cost will be \_\_\_\_\_ P10 and average variable cost will be \_\_\_\_\_ P10.
- A. greater than; less than
  - B. less than; greater than
  - C. less than; less than
  - D. greater than; greater than
5. When an increase in the scale of production leads to no change in average costs, the industry exhibits \_\_\_\_\_.
- A. diminishing returns
  - B. economies of scale
  - C. diseconomies of scale
  - D. constant returns to scale
6. Which of the following statements is **false**?
- A. The production possibilities curve shows the combinations of goods that can be consumed by a nation before trade begins.
  - B. The production possibilities curve shows the combinations of goods that can be consumed by a nation after trade and specialization begins.
  - C. The production possibilities curve shows the combinations of goods that can be produced by a nation before trading begins.
  - D. The production possibilities curve shows the combinations of goods that can be produced by a nation after trade and specialization begins.
7. A monopolistic market could be considered to be inefficient because \_\_\_\_\_.
- A. marginal cost exceeds marginal revenue
  - B. price is always greater than average total cost
  - C. price is greater than marginal cost
  - D. average total cost is rising

8. Product differentiation is beneficial because it \_\_\_\_\_.
- A. means variety, which is important to us psychologically
  - B. allows the economy to satisfy a wide range of tastes and preferences
  - C. generates competition in the market
  - D. all of the above
9. If free entry exists in a market, the existence of positive economic profits will eventually lead to \_\_\_\_\_.
- A. rightward shifts in the demand curves faced by incumbent firms
  - B. economic losses by some firms
  - C. entry by new firms
  - D. decreases in average costs faced by incumbent firms
10. A price-discriminating firm \_\_\_\_\_.
- A. does not sell its products to minority groups
  - B. produces only top quality products
  - C. is able to charge different groups of buyers a different price for its output
  - D. will never increase the price of its output

**SECTION B – TRUE/FALSE QUESTIONS**

**10 MARKS**

Answer ALL questions. Each question carries TWO (2) marks.

State whether each of the following statements is TRUE or FALSE, and briefly explain your answer in one or two sentences.

1. In long-run equilibrium, a monopolistically competitive firm's marginal revenue is equal to its marginal cost. (2 marks)
2. As an individual consumes more of a good, total utility increases at an increasing rate. (2 marks)
3. Marginal utility is the additional satisfaction received from consuming an additional unit of a product. (2 marks)
4. The following items are part of GDP?
  - a) Pensioners do community work for free. (2 marks)
  - b) A garage buys spare tyres to sell them to customers next year. (2 marks)

**SECTION C**

**30 MARKS**

**SHORT ANSWER QUESTIONS**

1. Comment on the following statement: "The more inelastic the demand, the greater is the deadweight loss caused by any given tax rate." (4 marks)
2. Explain the difference between economic growth and economic development. (4 marks)
3. Explain the concept of diminishing returns. (4 marks)
4. Outline one reason why indifference curves can never intersect. (5 marks)
5. Explain any four attributes of an ideal tax system. (8 marks)
6. The expenditure method is one of the methods used in the measurement of national income. Briefly explain the expenditure method. (5 marks)

**SECTION C**

**50 MARKS**

**ANSWER ANY TWO QUESTIONS IN THIS SECTION.**

**QUESTION 1**

**25 MARKS**

Define the following types of unemployment and discuss the strategies used by your government to control each of them.

- a) Cyclical unemployment
- b) Frictional unemployment
- c) Structural unemployment
- d) Technological unemployment
- e) Seasonal unemployment

**QUESTION 2**

**25 MARKS**

a) Explain how a firm's price and output decisions made under conditions of Oligopoly differ from those made by a firm operating under conditions of Monopolistic Competition.

**(10 marks)**

b) Define what is meant by 'price elasticity of supply'.

**(5 marks)**

c) Calculate the price elasticity of supply, based on the following data showing price and quantity supplied over two periods, 1 and 2.

**(5 marks)**

	Period 1	Period 2
Price	P20	P10
Supply	60	20

d) The following table indicates the total utility derived from individual demand curves.

Consumption	0	1	2	3	4	5	6
Utility	0	100	180	230	250	250	220
Marginal Utility							

Complete the individual's marginal utility schedule.

**(5 marks)**

**QUESTION 3**

**25 MARKS**

- a) Money plays a crucial role in the economic emancipation of a country. Using clear examples, discuss any three roles of the 'pula' currency in the development of Botswana's economy. **(10 marks)**
- b) Distinguish gross national product from gross domestic product. **(5 marks)**
- c) Explain the distinction between nominal and real measures of national income. **(5 marks)**
- d) Explain what adjustment needs to be made to national income accounts to obtain net national income from gross national income. **(5 marks)**