

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

EC211

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]

MULTIPLE CHOICE QUESTIONS

Answer ALL questions

Each question carries 1 mark

1. Which of the following would cause the aggregate demand curve to shift to the right?
 - A. an increase in purchases by the government
 - B. an increase in real interest rates
 - C. an appreciation of the American dollar
 - D. a decrease in the money supply

2. A type of unemployment in which workers are in-between jobs or are searching for new and better jobs is called _____ unemployment:
 - A. Frictional
 - B. Cyclical
 - C. Structural
 - D. turnover

3. Which of the following would cause the demand curve for cars to shift to the left?
 - A. an increase in the price of the cars
 - B. an increase in the interest rate paid to borrow money to pay for the car
 - C. an increase in buyers' incomes
 - D. an increase in the cost of production of cars

4. Assume that the central bank increases the monetary base by P1 billion when the reserve requirement is $\frac{1}{7}$. As a result, the money supply will _____.
 - A. increase by P1 billion
 - B. increase by P7 billion
 - C. decrease by P1 billion
 - D. increase by P143 million

5. A good is more likely to be supplied by the government rather than a private company if it is _____.
- A. A excludable and non-rival
 - B. excludable and rival
 - C. non-excludable and non-rival
 - D. non-excludable and rival
6. Which type of government intervention runs the risk of causing shortages?
- A. maximum price controls
 - B. specific indirect taxes
 - C. subsidies paid to some producers
 - D. taxes on company profits
7. Which of the following individuals is likely to have the most inelastic demand for air travel?
- A. a person who is afraid to fly
 - B. a person who enjoys flying
 - C. a business traveler
 - D. a retired person
8. Macroeconomics is best described as the study of _____.
- A. very large issues
 - B. the choices made by individual households, firms, and governments
 - C. the nation's economy as a whole
 - D. the relationship between inflation and wage inequality
9. Scarcity can best be defined as a situation in which _____.
- A. there are no buyers willing to purchase what sellers have produced
 - B. there are not enough goods to satisfy all of the buyers' demand
 - C. the resources we use to produce goods and services are limited
 - D. there is more than enough money to satisfy consumers' wants.

10. An economic model is a _____.
- A. realistic version of an economic environment
 - B. detailed version of an economic issue
 - C. fictional representation of an entire economy
 - D. simplified representation of an economic environment.

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. The law of diminishing marginal utility implies that demand curves will be downward sloping.
2. What matters to people is the face value of money or income.
3. A comparative advantage is the ability of one person or nation to produce a good at an opportunity cost that is lower than that of another person or nation.
4. The market system works by getting each person, motivated by his or her own self-interest, to produce products for other people.
5. On the "supply side" of a market, producers indicate to consumers what they are willing to sell, in what quantity and at what price.
6. Free trade will affect a country's employment in different industries.
7. The period of the business cycle in which real GDP is increasing is called the stagflation period.
8. Net exports refers to the difference between exports and imports.
9. Uncertainty is one of the attributes of money.
10. The private sector refers activities primarily operated by the government.

SECTION C

[30 MARKS]

SHORT ANSWER QUESTIONS

Answer ALL questions

1. Describe how a consumer should allocate expenditure in order to achieve maximum satisfaction and explain how a rise in income might affect that allocation.

(12 marks)

2. Evaluate the impact of an increase in unemployment on an economy.

(13 marks)

3. Differentiate between comparative advantage and absolute advantage.

(5 marks)

SECTION D

[50 MARKS]

ANSWER ANY TWO QUESTIONS IN THIS SECTION.

QUESTION 1

25 MARKS

Discuss and illustrate how the determination of prices and output by oligopolists is affected not only by the reactions of their customers, but also by their interdependence with other producers.

(25 marks)

QUESTION 2

25 MARKS

Discuss and illustrate with examples, at least, five advantages and five disadvantages of a free market economy.

(25 marks)

QUESTION 3

25 MARKS

a) Evaluate, at least, four main sources of market failure.

(15 marks)

b) Examine, at least, three reasons for interference by the government in the working of the free market.

(10 marks)

END OF EXAMINATION!!!

