

**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**

**SESSIONAL EXAMINATION**

**Marks – 100**

**Time Allowed 3 Hours**

**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)

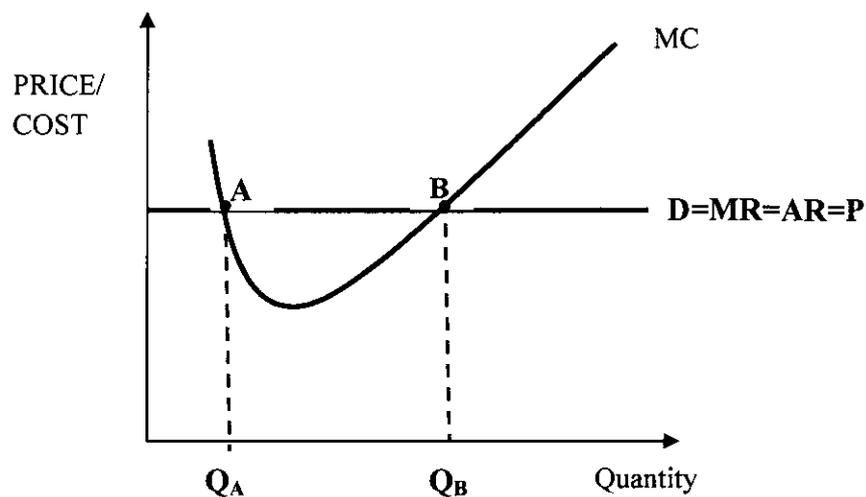
MULTIPLE CHOICE QUESTIONS

Each question carries 1 mark

1. If an increase in a consumer's income causes the consumer to decrease his quantity demanded of a good, then the good is \_\_\_\_\_.
  - A. a complementary good .
  - B. an inferior good.
  - C. A normal good
  - D. A substitute good
  
2. A curve showing all combination of goods that yield the same satisfaction is known as \_\_\_\_\_.
  - A. an indifference curve.
  - B. the budget curve.
  - C. the marginal rate of substitution curve
  - D. the consumption limit curve
  
3. If marginal cost is greater than the average variable cost, \_\_\_\_\_.
  - A. Average variable costs are rising
  - B. Average variable costs are falling
  - C. Average variable costs are minimised
  - D. Average variable costs are maximised
  
4. A market structure in which there are a few firms that react to each other's price changes is known as \_\_\_\_\_.
  - A. Monopolistic competition
  - B. Monopoly
  - C. Perfect competition
  - D. Oligopoly

5. An example of an expansionary fiscal policy is \_\_\_\_\_.
- A. an increase in the required reserve ratio
  - B. an increase in the tax rate
  - C. a reduction in the tax rate
  - D. a decrease in government spending
6. Nominal wage rate is the wage rate measured \_\_\_\_\_.
- A. in current dollars
  - B. in the prices of a base year
  - C. at a constant output level but at current prices
  - D. as the difference between the current year's wage rate and last year's wage rate.

Figure 1



7. With reference to Figure 1 above, the profit maximising point(s) for this firm is/are \_\_\_\_\_.
- A. Point A
  - B. Point B
  - C. Point A and B
  - D. None of the above

8. According to the infant industry argument for trade protectionism, \_\_\_\_\_.
- A. trade barriers must be used to protect domestic workers.
  - B. new industries need to be shielded in the early stages of learning by doing.
  - C. tariffs imposed to aid new industries should never be removed.
  - D. new industries are capable of competing with established rivals.
9. Which of the following is not an example of price discrimination?
- A. a restaurant offers senior citizens a discount
  - B. a supermarket that offers coupons to its customers
  - C. an electric company that charges different rates to its business and residential customers
  - D. an electronics superstore charges a lower price than a small retailer for the same television set.
10. Suppose we know that a monopolist is maximizing its profits. Which of the following must be true? The monopolist has \_\_\_\_\_.
- A. maximized its total revenue
  - B. set price equal to its average cost
  - C. maximized the difference between marginal revenue and marginal cost.
  - D. equated marginal revenue and marginal cost.

**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. Dumping is sometimes legal under international trade agreements. **(2 marks)**
2. If product differentiation continues to diminish, the firm's demand curve becomes more elastic. **(2 marks)**
3. The following items are part of GDP?
  - a) Mrs Miller picks flowers in her garden. **(2 marks)**
  - b) Fruits are sold on the market. **(2 marks)**
  - c) Patients, hurt in a car accident, are operated in a hospital. **(2 marks)**

**SECTION C**

**30 MARKS**

**SHORT ANSWER QUESTIONS**

1. Distinguish amongst a progressive income tax, a proportional income tax and a regressive income tax? **(6 marks)**
2. Outline 3 reasons why inflation is bad for the economy? **(6 marks)**
3. Define the 3 types of money? **(6 marks)**
4. With the aid of examples, distinguish between a public good and a private good? **(6 marks)**
5. As a result of advances in technology, cellular telephones have become cheaper to produce. Illustrate the effect of this change on the market for cellular telephones. **(6 marks)**

**SECTION C**

**50 MARKS**

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

**QUESTION 1**

**25 MARKS**

Discuss any five (5) instruments that can be used by the central bank to control the supply of money.

**QUESTION 2**

**25 MARKS**

Assume that a firm faces a downward-sloping demand curve. Draw a diagram showing the firm's AR, MR, AC and MC curves. (Draw them in such a way that the firm can make supernormal profits). Mark the following on the diagram:

- a) The firm's profit-maximising output and price. **(10 marks)**
- b) Its sales-revenue-maximising output and price. **(5 marks)**
- c) Its sales-maximising output and price (subject to earning at least normal profit). **(5 marks)**
- d) Giving reasons, state whether the following statement is true or false:  
'the cross price elasticity of demand for a substitute good is negative'. **(5 marks)**

**QUESTION 3**

**25 MARKS**

ZEB (Pty) Ltd is in business selling razors. Table 1 below shows the demand for these razors at various prices. The total cost of production of the various levels of output is also shown.

TABLE 1

Quantity	Price	Total Cost
0	P100	P50
1	100	90
2	100	150
3	100	230
4	100	330
5	100	450

- a) Giving one reason, state the market structure ZEB (Pty) Ltd is operating under. **(4 marks)**
- b) Calculate marginal revenue, marginal cost and profit for the firm. **(18 marks)**
- c) State, with reasons, the level of output that maximises profit and the price that the firm should charge for its products. **(3 marks)**