

Examination No. \_\_\_\_\_

**THE PUBLIC ACCOUNTANTS EXAMINATION**  
**COUNCIL OF MALAWI**

**2010 EXAMINATIONS**

**FOUNDATION STAGE**

**PAPER 4: ORGANISATIONAL FRAMEWORK**

WEDNESDAY 8 DECEMBER 2010

TIME ALLOWED : 3 HOURS  
2.00PM 5.00PM

**INSTRUCTIONS**

1. You are allowed **15 minutes** reading time **before the examination begins** during which you should read the question paper and, if you wish, make annotations on the question paper. However, you are **not** allowed, **under any circumstances**, to open the answer book and start writing or use your calculator during this reading time.
2. Number of questions on paper - 9.
3. This paper is divided into **FOUR** Sections.
4. **SIX** questions **ONLY** to be answered as follows:-  
**SECTION A** - Question 1 is divided into parts a – t. This is a compulsory multiple choice question and **MUST** be attempted. Indicate the correct answer for each part by circling (i), (ii), (iii) or (iv) on the specially prepared answer sheet. **Fasten the answer sheet to your answer book.**  
**SECTION B** – **ONE** question **ONLY** to be answered.  
**SECTION C** - **ONE** question **ONLY** to be answered.  
**SECTION D** - **THREE** questions **ONLY** to be answered including Question 6 which is compulsory.
5. Begin each question on a **fresh** page.
6. Do **not** remove this question paper from the examination hall.
7. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR**

**This paper contains 10 pages**

**SECTION A**

**This is a multiple choice question. Indicate the correct answer to each of the questions by circling the correct number on the specially prepared answer sheet. Circle ONE answer ONLY for each question. The answer sheet should be fastened to your answer book.**

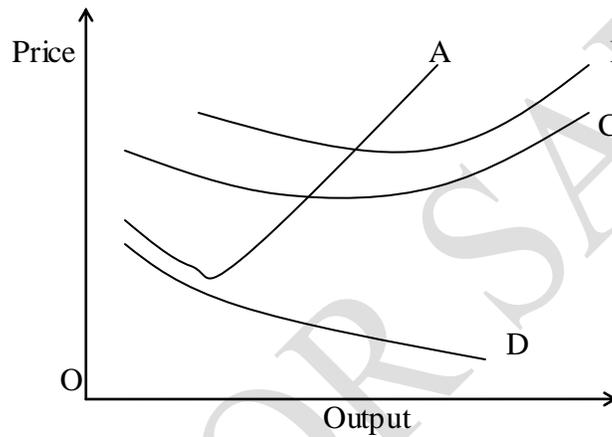
1. (a) Economic problems involve deciding:
- (i) What to produce;
  - (ii) How to produce;
  - (iii) For whom to produce ;
  - (iv) All of the above.
- (b) In economics, the study of individual consumers and firms in society is known as.
- (i) Macroeconomics;
  - (ii) Microeconomics;
  - (iii) Managerial economics;
  - (iv) Normative economics.
- (c) Which of the following is **not** an objective of a firm?
- (i) Price maximization;
  - (ii) Profit maximization;
  - (iii) Sales maximization;
  - (iv) Value maximization.
- (d) Change in demand arising from change in price over a given period is known as:
- (i) Point elasticity;
  - (ii) Cross elasticity;
  - (iii) Arc elasticity;
  - (iv) Price elasticity.

**Continued/.....**

(e) The total revenue (TR) of a firm reaches its maximum when elasticity of demand is:

- (i) 0 (zero);
- (ii) 1 (unitary);
- (iii)  $>1$  (elastic);
- (iv)  $1 <$  (inelastic).

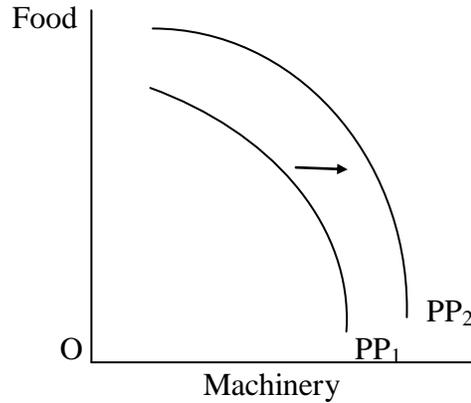
(f) Study the diagram below. Which curve represents the Average Variable Cost (AVC)?



- (i) A
- (ii) B
- (iii) C
- (iv) D

Continued/.....

- (g) Which of the following would cause the production possibility frontier of an economy to shift outwards to the right as indicated in the diagram?



- (i) A reduction in the level of employment;
- (ii) A rise in the level of investment;
- (iii) A fall in the price of one factor of production;
- (iv) A decrease in output per worker.
- (h) In a free market economy, the price mechanism helps in:
- (i) allocating resources optimally;
- (ii) measuring the level of competition;
- (iii) measuring National Income (NI);
- (iv) government exercising control.
- (i) The oligopolist is least likely to compete through:
- (i) advertising;
- (ii) improving product quality;
- (iii) reducing prices;
- (iv) providing incidental services in addition to the basic product.

**Continued/.....**

- (j) When a firm produces one extra unit of output, the marginal cost of the unit is:
- (i) the increase in the total cost of production;
  - (ii) the increase in the variable cost of production;
  - (iii) the increase in the average cost of production;
  - (iv) (ii) and (iii) above.
- (k) The purpose of a cartel is to:
- (i) rationalize production;
  - (ii) reduce consumer uncertainty;
  - (iii) standardize product quality;
  - (iv) standardize price.
- (l) The law of diminishing returns states that :
- (i) As more factors of production are employed, output rises initially and then falls.
  - (ii) As more factors of production are employed, output rises but at a decreasing rate;
  - (iii) As more variable factors of production are added to a fixed factor, output rises at a decreasing rate after a certain point;
  - (iv) As more variable factors of production are added to a fixed factor, output rises at a faster rate initially and then falls.
- (m) In a profit maximizing firm under conditions of perfect competition, which of the two equations is true in the long-run equilibrium?
1. Average cost = Average revenue
  2. Marginal cost = Average revenue
- (i) Neither of the two equations;
  - (ii) Equation 1;
  - (iii) Equation 2;
  - (iv) Both equations 1 and 2.

**Continued/.....**

- (n) A bank's liquidity ratio is:
- (i) The ratio of cash to loans;
  - (ii) The ratio of its liquid assets to its total liabilities;
  - (iii) The ratio of total assets to total liabilities;
  - (iv) The ratio of cash to assets.
- (o) Maturity transformation refers to:
- (i) The process by which loans get closer to redemption;
  - (ii) The amount payable to redeem a loan or security at its maturity;
  - (iii) The process by which short-term deposits are relent by banks as longer-term loans;
  - (iv) The way in which interest rates are varied according to the duration of the loan.
- (p) Which of the following is not a function of a stock exchange?
- (i) Funding new companies;
  - (ii) Market for government securities;
  - (iii) Providing market for company new securities;
  - (iv) Advertising prices of share.
- (q) Which of the following is an item of fiscal policy?
- (i) Setting a national minimum wage;
  - (ii) Supporting the exchange rates of a currency;
  - (iii) Controlling growth in the money supply;
  - (iv) Altering the rates of taxation.

**Continued/.....**

- (r) Jimmy earns K80,000 per year and pays K10,000 income tax. Jerry earns K160,000 per year and pays K25,000 income tax. Jack earns K240,000 per year and pays K55,000 income tax. This means that the tax system is:
- (i) regressive;
  - (ii) proportional;
  - (iii) progressive;
  - (iv) pay as you earn.
- (s) The marginal propensity to consume measures:
- (i) the relationship between changes in consumption and changes in consumer utility;
  - (ii) the proportion of household income spent on consumer goods;
  - (iii) the proportion of national income spent on consumer goods;
  - (iv) the relationship between changes in consumption and changes in income.
- (t) If the real rate of interest per annum is 3% and the expected rate of inflation is 6% p.a., the nominal rate of interest will be approximately:
- (i) 2%;
  - (ii) 3%;
  - (iii) 9%;
  - (iv) None of the above.

**(TOTAL : 20 MARKS)**

**Continued/.....**

**SECTION B****Answer ONE question ONLY from this Section**

2. (a) State **three** reasons why business firms are important in society. **3 Marks**
- (b) Explain **four** problems which may arise in a market oriented economy and state how society deals with such problems. **12 Marks**  
**(TOTAL : 15 MARKS)**

3. (a) (i) What does the term “demand” mean, as used in Economics? **1 Mark**
- (ii) What is the difference between “a demand function” and “a demand curve”? **6 Marks**
- (b) The following information relates to demand for cars during a certain period in country B.

<u>Independent variables</u>	<u>Parameter</u>	<u>Estimated value of the independent variable</u>
Average price	-3000	K3,000
Disposable income	1000	K2,000
Population	0.05	20,000,000
Credit index	1,500,000	1
Advertising expenditure	0.05	K100,000,000

**Required:**

- (i) Derive a demand function and calculate the estimated demand for cars during that period. **3 Marks**
- (ii) Draw up a demand curve and explain its relationship to the demand function. **5 Marks**

**(TOTAL : 15 MARKS)****Continued/.....**

**SECTION C****Answer ONE question ONLY from this Section**

4. With the aid of diagrams:
- (a) Explain the concept and importance of equilibrium in National Income. **8 Marks**
  - (b) In the national income analysis, show and explain the concepts of:
    - (i) Deflationary gap;
    - (ii) Inflationary gap. **7 Marks****(TOTAL: 15 MARKS)**
5. (a) (i) Define the term “Exchange Rate”. **1 Mark**
- (ii) Explain **four** factors which influence the exchange rate of a currency. **8 Marks**
- (b) Explain at least **three** policy options which a government may use in managing exchange rates of its currency. **6 Marks**
- (TOTAL : 15 MARKS)**

**Continued/.....**

6.

**SECTION D****Answer Question 6 and any other TWO questions****CASE STUDY**

“Ok, we all know that we can’t wish our competition away or solve our problems with some kind of magic”, Harry said after reviewing some of the company’s major problems. “But we have a great history of success with quality products, market share, and customer satisfaction. I think we have enough brainpower, skill and, yes, guts too to climb back to the top”.

“What we need here, it seems to me”, he continued, “is a new climate – a new attitude from managers and workers alike – to get this company moving again. After all, we are in the same boat. Unless we row together in the same direction, we will not get anywhere; in fact we may just as well sink together.” Harry Banda, Managing Director of Guta Footwear Ltd, was giving his usual annual talk to the managers of his company. They all sensed the unusual seriousness of his remarks.

Guta Footwear Ltd was going through difficult times. Competition from foreign manufacturers had caused market share to shrink from 21 percent to 9 percent in a period of five years. Just two months ago, a second of its five manufacturing plants was closed, displacing 800 employees. In addition, quality had declined in an effort to meet competition, and customer complaints had more than doubled. Productivity was on the downside and employee morale was at an all-time low with many good workers leaving the company.

Everyone wondered as to what would happen next. “It’s up to you,” Banda said in closing. “I, for one, think we can turn this thing around. It will take team work. And it will take some rethinking of old rules and old routines. Innovation is the name of the new game. I have complete confidence in you to get our ship moving again. You are good managers – that’s why you were hired. I have asked the top line managers to spearhead an all-out brainstorming marathon. I expect them to be in touch with you – and with me – 30 days from today with a preliminary report”.

“Well, at least he has acknowledged that someone outside the founding Banda family has some brains”, said Mathias Kolera, the Production Manager, as they left the room. “But I wonder if this new grass-roots approach will pass through this traditional, lockstep, bureaucratic company,” wondered Mathias.

“Yea, but it’s a mandate. It seems Banda has some pretty strong goals in mind. No point standing around mourning about it”, commented Jill Phiri, the Sales Manager; “it’s about time something got moving around here, so let’s get on with it”.

**Continued/.....**

**Required:**

- (a) Identify the main problems faced by the company. **2 Marks**
- (b) (i) Define “SWOT” analysis. **12 Marks**  
(ii) Analyse the case and suggest strategies for recovery. **12 Marks**
- (c) Draw up a TOWS Matrix to identify four types of strategy that might be used to turn the company around. **6 Marks**  
**(TOTAL : 20 MARKS)**
7. (a) Define the term “motivation”. **2 Marks**
- (b) Explain **three** types of motivation theories, citing their authors. **9 Marks**
- (c) State **two** examples of conditions in a business environment where a firm must motivate its employees to do something. **4 Marks**  
**(TOTAL : 15 MARKS)**
8. Production is the business function that deals with creating goods and services.
- (a) Explain at least **five** factors that should be taken into consideration when drawing up a production policy. **7 Marks**
- (b) Explain **four** methods of production, giving **one** advantage and **one** disadvantage of each. **8 Marks**  
**(TOTAL : 15 MARKS)**
9. (a) Define the term “delegation”. **2 Marks**
- (b) Describe at least **six** stages in the delegation process. **9 Marks**
- (c) Mention **four** advantages of delegation to an organisation. **4 Marks**  
**(TOTAL : 15 MARKS)**

**E N D**