

EXAMINATION No. _____

THE PUBLIC ACCOUNTANTS EXAMINATION
COUNCIL OF MALAWI

2013 EXAMINATIONS

FOUNDATION STAGE

PAPER 4: ORGANISATIONAL FRAMEWORK

THURSDAY 5 DECEMBER 2013

TIME ALLOWED : 3 HOURS
2.00 PM - 5.00 PM

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 answer 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) Economics is the study of :
- (i) money supply and capital formation;
 - (ii) demand and supply of goods and services;
 - (iii) allocation of scarce resources to unlimited wants;
 - (iv) inflation and unemployment.
- (b) It is not possible to make accurate predictions in economics because :
- (i) it deals with human behavior which is not consistent;
 - (ii) controlled experiments are not possible in the study of social science;
 - (iii) economic events frequently relate to other complicated issues;
 - (iv) all the above.
- (c) All the following are considered as factors of production **except** for:
- (i) screwdrivers;
 - (ii) the company's bank balance;
 - (iii) the owner of the business;
 - (iv) the owner's residence.
- (d) The book entitled "**The Wealth of Nations**" was written by:
- (i) John Maynard Keynes;
 - (ii) Karl Marx;
 - (iii) Adam Smith;
 - (iv) John Stuart Mill.

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- (e) In economics the term “invisible hand” refers to:
- (i) the mechanism of supply and demand;
 - (ii) the power of money;
 - (iii) the operation of foreign aid;
 - (iv) none of the above.
- (f) The Production Possibility (PP) curve will shift outwards to the right if :
- (i) there is a reduction in unemployment level;
 - (ii) there is an increase in the prices of both consumer and capital goods;
 - (iii) there is a more efficient allocation of resources between consumer and capital goods.
 - (iv) There are improvements in technology affecting both consumer and capital goods.
- (g) Which of the following represents an opportunity cost:
- (i) the purchase of a machine at a reduced price;
 - (ii) the amount forgone in taking an alternative course of action;
 - (iii) the cash paid in order to win a bid;
 - (iv) investment into a newly formed company.
- (h) Planned economies solve economic problem of “what shall be produced by:
- (i) following consumer and state decisions ;
 - (ii) following government decisions;
 - (iii) depending on consumer spending;
 - (iv) decisions made by independent entrepreneurs.

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- (i) A “free enterprise” is characterized by:
- (i) reliance on research;
 - (ii) price control;
 - (iii) reliance on an efficient banking system;
 - (iv) reliance on a price system.
- (j) The demand curve for a product will shift downward to the left if there :
- (i) is a reduction in quantity demanded at that price;
 - (ii) is an increase in the supply of the good;
 - (iii) has been a successful advertising campaign for the product;
 - (iv) has been an increase in the cost of producing the product.
- (k) The Long Run Average Cost (LRAC) is “U” shaped starting by falling and then rising because of :
- (i) diseconomies of scale;
 - (ii) diminishing returns;
 - (iii) constant returns to scale;
 - (iv) economies of scale.
- (l) A company produced 5 units of a product at the cost of K7,800. When an extra unit was produced, the cost increased to K8,800. The marginal cost of producing the extra unit was:
- (i) K1,020;
 - (ii) K1,470;
 - (iii) K1,000;
 - (iv) K1,420.

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- (m) A firm earns normal profits when:
- (i) Marginal cost is equal to marginal revenue ($MC = MR$);
 - (ii) Average cost is equal to average revenue ($AC = AR$);
 - (iii) Marginal cost is equal to average cost ($MC = AC$);
 - (iv) Marginal cost is equal to average revenue ($MC = AR$).
- (n) Supernormal profits are profits:
- (i) earned by a firm over a number of years;
 - (ii) whose level is above variable costs in the short run ;
 - (iii) earned when average revenue exceeds average cost ($AR > AC$);
 - (iv) none of the above.
- (o) Aggregate demand is:
- (i) the total expenditure on domestically produced goods and services at a given income level;
 - (ii) the total expenditure on domestically produced goods and services at a given price level;
 - (iii) the total consumer expenditure, government expenditure, investment and net exports;
 - (iv) the total demand for consumer goods produced domestically.
- (p) The elasticity of a demand curve:
- (i) may have varying values along its length;
 - (ii) must be equal to one;
 - (iii) must be infinite;
 - (iv) must be equal to zero .

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- (q) When average cost (AC) is falling, marginal cost (MC):
- (i) must be falling faster than average cost;
 - (ii) must be less than average cost;
 - (iii) must be either greater, less than, or equal to average cost;
 - (iv) must be greater than average cost.
- (r) Consider commodities A and B. When the price of A rises, the quantity demanded of product B also rises. Products A and B are said to be:
- (i) inferior goods;
 - (ii) both have perfectly elastic demand;
 - (iii) they are complements of each other;
 - (iv) they are substitutes for each other.
- (s) A country will tend to specialize in the production of goods in which:
- (i) its labour productivity is highest;
 - (ii) its cost of production are lowest;
 - (iii) it has the greatest comparative advantage;
 - (iv) it has absolute advantage.
- (t) In a joint-stock company, ordinary shareholders:
- (i) do not have the right to attend the annual general meeting of the company;
 - (ii) have limited liability for the company debts;
 - (iii) receive all the company's profits each year in the form of dividends;
 - (iv) have the right to appoint the chief sales manager.

1 Mark each
(TOTAL : 20 MARKS)

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

2. (a) (i) What is meant by the term “demand”? **1 Mark**
- (ii) What is a demand curve? **1 Mark**
- (iii) Draw a demand curve and explain at least **three** different changes that may occur in the demand curve. **5 Marks**
- (b) (i) What is a demand function? **2 Marks**
- (ii) You are given the following data:

<u>Independent variables</u>	<u>Parameters</u>	<u>Estimated value of the independent variable</u>
Average price of chickens	-3,000	K3,000
Disposable income	1,000	K2,000
Population	0.05	20,000,000
Credit index	1,500,000	1
Advertising expenditure	0.05	K100,000,000

Required:

Explain the meaning of the parameters and derive a demand function from the data. Use the data to estimate demand for chickens for the period.

6 Marks
(TOTAL : 15 MARKS)

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3. (a) What is meant by the term “production function”? Illustrate your answer. **3 Marks**
- (b) What is the difference between “returns to scale” and “factor productivity”? **3 Marks**
- (c) With the aid of diagrams, explain the difference between “short-run costs” and “long-run costs”. **9 Marks**
- (TOTAL : 15 MARKS)**

SECTION C

Answer ONE question ONLY from this Section

4. (a) With the aid of a diagram, define and explain the terms “aggregate demand” and “aggregate supply”. **6 Marks**
- (b) Name **two** factors which influence aggregate demand and **two** factors which influence aggregate supply. **2 Marks**
- (c) Using a diagram, explain the concepts of:
- (i) Inflationary gap
- (ii) Deflationary gap. **7 Marks**
- (TOTAL : 15 MARKS)**
5. (a) Explain the meaning of the following terms and show how each one of them is measured:
- (i) Inflation;
- (ii) Unemployment. **4 Marks**
- (b) Explain the relationship between inflation and unemployment. **11 Marks**
- (TOTAL : 15 MARKS)**

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6.

SECTION D**Answer Question 6 and any other TWO questions****CASE STUDY****ORGANISATIONAL GOATS VS SHEEP**

Miss Matilda Balala is a Supervisor at one of the hotels in Blantyre belonging to Maloto Hotels Ltd. She has worked at this hotel as a housekeeper for seven years now, working her way to the present position of supervisor.

Malty, as she is fondly referred to by many, seems to be well paid and hard working. But Malty is an unpredictable character in all aspects of her life. She runs around doing things of many kinds at work and in town. She is her own boss! Her attendance at work is very sporadic. Sometimes she comes to work very late, you would think that she would not come at all, or she would come so early that one would think she has spent the night at work. But when Matilda comes to work, she comes to work. Everybody at the hotel knows that Malty is here to work and so is everybody expected to do likewise. She has no respect for non-performers and she tells it as it is. Malty likes to supervise by doing. You often hear her say “look! let me show you how it is done”, or “see how these flowers are arranged”. Malty knows no boundaries of work. She will do anything to get something done.

Matilda’s office bears no evidence of her ever being there. A blank pad and pen lay on the desk and perhaps a bottle of drinking water officially placed by the hotel’s staff, stands on the desk.

Mr Chuma, who is the hotel chain’s General Manager, is a bit concerned about Matilda’s behavior. He has been receiving conflicting reports about her and does not know not what to do.

“This lady surely sounds like a “goat” always running around doing everything everywhere. He mutters to himself, but look at her performance, excellent! excellent! If only she could learn to respect the rules and regulations of the company! She seems to get along well with everybody around here including customers; you would surely think that this is “Malty Hotel”. A strange combination of forces – let me talk to her.

“Mary”, Mr Chuma calls his Secretary. “Can you please get Miss Matilda Balala into my office”? “Yes sir”, Mary responds.

Within thirty minutes Malty walks into Mr Chuma’s office. After a few formal exchanges, Mr Chuma gets to the point. “I have called you Miss Balala to discuss a few things about your job performance and behavior. Have you brought with you any written plan, or schedules of your work”? “No sir, I do not have any” Malty responds.

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“You mean you also do not have anything written about your work, like a job description or time-table of some sort as a manager”? asked Mr Chuma.

“Nop, nothing at all, Sir, its all in my head. I know what I am supposed to do, when, where or with whom etc. It’s all up here sir”, she concludes pointing at her head. “But Miss, you work with a large number of people in various fields, don’t you think you need some tools to help you track down or guide your subordinates”? Mr Chuma says seemingly losing a bit of his temper “you need charts, timetables, schedules even some reports on your subordinates. By the way, I am told that you also do not even have set times for reporting for work, you come or do not come as you see fit, what kind of manager are you? What example are you setting for your staff”? Chuma concluded while expecting no reply.

“I am sorry, sir, if my behavior causes you inconvenience but I think you ought to write a new book on a theory of management that allows a staff to maximize company results without shackles. “Case study me”. I think there are too many “sheep” in this organization who follow rules and regulations and “sleep” on the job without producing results”. What would you prefer, sir, goats that run around or sheep that sleep on the job? See Mr Chuma, “sheep follow; if there is no shepherd they lay waiting. Goats run ahead of the herdman; if there is something to catch, they catch”.

Required:

- (a) Identify and explain at least **three** problems and **three** opportunities Matilda Balala has presented to the organization. **9 Marks**
- (b) Explain the meaning of the term “organizing”. **1 Mark**
- (c) Name and briefly explain **four** management principles which Maltilda has violated. **6 Marks**
- (d) If you were Mr Chuma, the General Manager, what would you do about Maltilda? **4 Marks**

(TOTAL : 20 MARKS)

7. (a) What is a product life-cycle? Using a diagram, explain the **four** stages of a product life-cycle. **10 Marks**

- (b) State **five** ways in which a product’s life-cycle may be used by management. **5 Marks**

(TOTAL : 15 MARKS)

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8. (a) (i) Describe Tannenbaum and Schmidt's Continuum theory of leadership. **3½ Marks**
- (ii) What are the **three** factors that should be considered in choosing a leader? **1½ Marks**
- (b) Consider the following situations:
- (1) "He is always throwing orders in our face and then stands over us to see that it's done his way. We'll do what he assigns and no more!"
- (2) "We're going to handle this job differently" said Bayathe, the Supervisor. "We've four new workers and two trainees on the line, so the situation calls for a standardized procedure and closer supervision for a while. At the end of two weeks, we'll look at the situation again and decide from there".
- Required:**
- (i) What type of leadership style on Schindt's 1 to 7 continuum are each of the above situations? **4 Marks**
- (ii) What are the consequences of each type of leadership adopted in each case? **2 Marks**
- (c) Define "power" and mention **three** types of power. **4 Marks**
(TOTAL : 15 MARKS)

9. One of the most popular fields of study in management is "Management By Objectives" (MBO).

Required:

- (a) Define and explain the concept of management by objectives. **5 Marks**
- (b) Describe at least **five** characteristics of a good objective. **5 Marks**
- (c) Describe at least **five** primary business objectives. **5 Marks**
(TOTAL : 15 MARKS)

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