

Examination No. _____

THE PUBLIC ACCOUNTS EXAMINATION COUNCIL
OF MALAWI

2011 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC 5: ECONOMICS

WEDNESDAY 7 DECEMBER 2011

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. The paper is divided into sections **A** and **B**.
4. **FIVE** questions **ONLY** to be answered; **TWO** from **Section A** and **THREE** from **Section B**.
5. Each question carries 20 marks.
6. Begin each answer on a fresh page.
7. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

This question paper contains 4 pages.

This question paper must **not** be removed from the examination hall.

SECTION A

Answer two questions only from this section.

1. (a) Dandaula owns a grocery store in Mbayani Township in Blantyre. One Day, he was heard complaining to one of his customers regarding the fuel shortage that has hit Malawi recently. To justify price increases in most of his products he said, “You see, with this fuel shortage, all prices ought to go up!”

Required:

- (i) State the branch of economics that Dandaula’s statement falls in. **2 Marks**
- (ii) What is the main weakness of the branch of economics Dandaula is referring to in question (i) above? **2 Marks**

- (b) Let us assume that Dandaula’s statement in (a) above, was intended to revolve around price elasticity of demand.

Required:

- (i) What is price “elasticity of demand”? **2 Marks**
- (ii) Explain **three** key determinants of price elasticity of demand. **6 Marks**
- (iii) In Mbayani, price elasticities of maize flour and bread have been estimated to be (-) 0.09 and (-) 1.25, respectively. Income elasticities of demand estimates have been given as (-) 0.29 for maize flour and (+) 0.25 for bread.

Explain the significance of the elasticity values for the producers of the two products. **8 Marks**

(TOTAL: 20 MARKS)

Continued/.....

2. (a) State the law of diminishing returns. **2 Marks**
- (b) With regards to time periods, how do diminishing returns differ from economies of scale? **2 Marks**
- (c) Explain **five** major sources of internal economies of scale. **10 Marks**
- (d) Give **two** advantages small firms might have over large firms that might outweigh economies of scale. **4 Marks**
- (e) Define the term *diseconomies of scale*? **2 Marks**
- (TOTAL: 20 MARKS)**
3. (a) Mention **four** factors that determine demand for maize in Malawi. **8 Marks**
- (b) Using demand and supply analysis, examine the effect on the equilibrium price and quantity traded of maize in Malawi of each of the following events:
- (i) Drought. **4 Marks**
- (ii) A rise in demand for rice. **4 Marks**
- (iii) A fall in maize fertilizer subsidy. **4 Marks**
- (TOTAL: 20 MARKS)**
4. (a) State the difference between the following:
- (i) Private cost and social cost. **2 Marks**
- (ii) Private benefit and social benefit. **2 Marks**
- (b) State **two** positive and **two** negative externalities that are likely to emanate from the construction of a state highway in a rural area. **4 Marks**
- (c) State any **three** disadvantages of a planned economy. **6 Marks**
- (d) Scarcity of resources means that choices must be made regarding how resources are allocated.

Required:

Clearly explain **three** basic resource allocation decisions. **6 Marks**
(TOTAL: 20 MARKS)

Continued/.....

SECTION B

Answer three questions only from this section.

5. (a) What is money? **2 Marks**
- (b) Mention **five** characteristics of money. **5 Marks**
- (c) Explain the difference between narrow definition of money and broad definition of money. **4 Marks**
- (d) What are Keynesian views on motives why people hold wealth as money rather than as interest-bearing securities? **9 Marks**
- (TOTAL: 20 MARKS)**

6. (a) Recently, Malawi has experienced a severe scarcity of foreign currency. Different schools of thought have tried to explain the problem, including the issue of free-floating and fixed exchange rate systems that Malawi may wish to consider.

Required:

- (i) Explain the **difference** between a free-floating exchange rate and a rigidly fixed exchange rate system. **6 Marks**
- (ii) State and explain **five** factors that may influence Malawi's exchange rate. **10 Marks**
- (b) State **two** advantages and **two** disadvantages that may arise from the depreciation of the Malawi Kwacha. **4 Marks**
- (TOTAL: 20 MARKS)**
7. (a) What is inflation? **2 Marks**
- (b) Name and explain the type of inflation that an increase in international oil price may cause in Malawi? **5 Marks**
- (c) Clearly explain any **three** ways in which inflation prevents money from performing its functions effectively. **9 Marks**
- (d) Name and explain **two** undesirable consequences of inflation. **4 Marks**
- (TOTAL: 20 MARKS)**

Continued/.....

8. Periodically, the Malawi government restricts catching of *chambo* in Lake Malawi to allow the fish to breed. To this, one rich man in Mangochi reacted this way, “This is good but it creates unemployment amongst some fishermen.”

Required:

- (a) What do you understand by the term “unemployment”? **2 Marks**
 - (b) Name and explain the type of unemployment that is being referred to in the above paragraph. **6 Marks**
 - (c) Why would the above government restriction have limited unemployment effects on fishermen in Mangochi? **2 Marks**
 - (d) Explain **three** negative effects of unemployment, in general. **6 Marks**
 - (e) Explain **two** ways in which government can reduce cyclical unemployment in some parts of the country such as Mangochi. **4 Marks**
- (TOTAL: 20 MARKS)**

9. (a) In 2006, ninety percent of Malawi’s foreign debt of close to K400 billion was cancelled. This development was hailed by many economists in the country.

Required:

- (i) What is national debt? **3 Marks**
- (ii) Clearly explain **five** advantages to Malawi arising from the foreign debt cancellation. **10 Marks**
- (b) Before the debt cancellation, Malawi was mainly using taxation as a tool to service its foreign debt.

Required:

- (i) What are the **two** likely disadvantages of using proportional tax to raise revenue for national debt service? **4 Marks**
 - (ii) Apart from raising revenue for debt servicing, mention **three** other functions of taxation in Malawi. **3 Marks**
- (TOTAL: 20 MARKS)**

E N D