EXAMINATION NO.____________________

THE PUBLIC ACCOUNTS EXAMINATION COUNCIL OF MALAWI

2013 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC 5: ECONOMICS

THURSDAY 28 NOVEMBER 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. 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 7 pages.

SECTION A

Answer two questions only from this section.

1. You have been appointed junior sales manager of a franchise food outlet, Bonya. The senior management has asked you to analyze the effect that demand for *spicy-usipa* has on total revenue. The demand and supply functions, Q_d and Q_s, respectively are given as follows:

$$Q_d = -50 + 3P_e$$

$$Q_s = 100 - 2P_e$$

where, P_e is the equilibrium price.

Required:

(a) Define the term 'equilibrium price'. **2 Marks**

(b) Calculate the equilibrium price, P_e. **2 Marks**

(c) For the following prices, P, calculate the total revenue, TR:

(i) $P = 20$ **3 Marks**

(ii) $P = 25$ **3 Marks**

(iii) $P = 40$ **3 Marks**

(iv) $P = 45$ **3 Marks**

(d) If *spicy-usipa* has a relatively elastic price elasticity of demand, briefly explain how the price elasticity of demand affects the revenue when:

(i) The price of *spicy-usipa* decreases. **2 Marks**

(ii) The price of *spicy-usipa* increases. **2 Marks**

(TOTAL: 20 MARKS)

Continued/……

2. (a) Zatheka intends to join people who own barber shops within Blantyre market. This relatively small-firmed industry is said to be barrier-free and the services offered are largely identical. Zatheka has been reliably informed that it is possible to make supernormal profits in the short run.

Required:

(i) Define the term 'supernormal profit'. **2 Marks**

(ii) State the difference between 'supernormal profits' and 'economic profits'. **2 Marks**

(iii) With the aid of a clearly labelled diagram, explain how supernormal profits can exist in the short run in this relatively small-firmed industry that Zatheka intends to enter. **8 Marks**

(iv) Mention **two** advantages and **two** disadvantages that Zatheka would have, if he was to operate as a sole trader. **4 Marks**

(b) State **four** characteristics of a pure monopoly. **4 Marks**

(TOTAL: 20 MARKS)

3. As a poor country, Malawi can be said to be operating at a point way inside the production possibility frontier (PPF).

Required:

(a) Explain the meaning of the term PPF. **2 Marks**

(b) Why is an understanding of opportunity cost very important in interpreting the movements along the PPF? **2 Marks**

(c) Name and explain **five** economic changes that can lead to Malawi's rightward shift from its hypothetical point within the PPF. **10 Marks**

(d) Scarcity of resources means that choices must be made regarding how the resources will be allocated in Malawi.

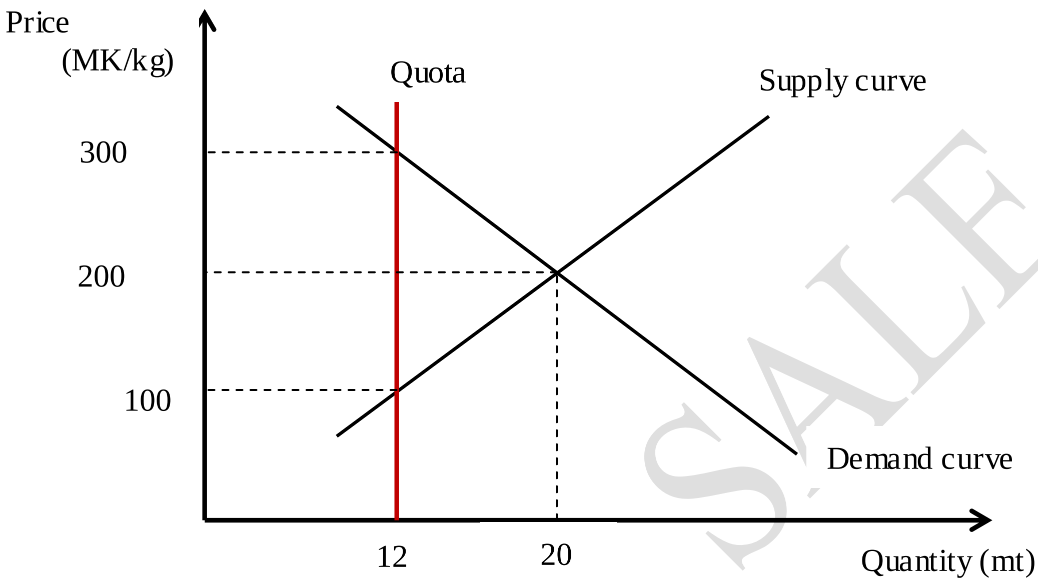
Required:

Name and explain the **three** basic resource allocation decisions. **6 Marks**

(TOTAL: 20 MARKS)

Continued/……

4. For many years the Government of Malawi has been putting quotas on the cultivation of tobacco in the country. Carefully study the figure below that shows the production of tobacco in Kasungu under a quota system. The output is in metric tonnes (mt) and the price is in Malawi Kwacha per kilogram (MK/kg)



Required:

(a) Define the term 'quota'. **2 Marks**

(b) Calculate the total revenue that Kasungu generates with:

(i) Quota on tobacco production. **2 Marks**

(ii) No quota on tobacco production **2 Marks**

(c) By how much does the total revenue generated with no quota exceed or fall short of the total revenue generated with quota on tobacco production? **2 Marks**

(d) Which price most likely represents an *underground price*? **2 Marks**

(e) Define and calculate the dead weight loss as a result of the quota. **6 Marks**

(f) With reference to agricultural production, explain **two** disadvantages of having a quota system. **4 Marks**

(TOTAL: 20 MARKS)

SECTION B

Answer three questions only from this section

5. In April 2012, the Malawi Government devalued its currency and adopted a free-floating exchange rate. This led to a debate with some experts supporting while others criticizing the move. The critics were of the view that the Malawi currency was supposed to be put under a managed floating exchange rate.

Required:

(a) State the difference between a *free-floating* exchange rate and a *managed floating* exchange rate systems. **4 Marks**

(b) State the **two** advantages of a *floating* exchange rate system. **4 Marks**

(c) Name and briefly explain **three** factors that tend to influence exchange rates. **6 Marks**

(d) In relation to currencies, define the term 'devaluation'. **2 Marks**

(e) Mention and explain **two** adverse economic effects that may arise from the devaluation of the Malawi Kwacha. **4 Marks**

(TOTAL: 20 MARKS)

6. (a) According to the National Statistical Office, at the end of the year 2012, Malawi's inflation was above 30 percent. During the same period, many employees negotiated with firms for wage increases largely based on their expectations of inflation.

Required:

Between employees and firms, briefly explain who would lose if:

(i) The actual inflation turns out to be higher than expected. **2 Marks**

(ii) The actual inflation turns out to be lower than expected. **2 Marks**

(b) What does the real interest rate measure? **2 Marks**

(c) With the aid of a graph, explain the cost-push inflation. **8 Marks**

(d) Name and explain **three** undesirable economic effects of inflation. **6 Marks**

(TOTAL: 20 MARKS)

Continued/……

7. You are given the following hypothetical data for the Malawi economy measured in millions of Kwacha (K'million). Carefully study the table and answer the questions that follow.

Gross National Product		Y
Private Consumption (C)		$12 + 0.6Y$
Net National Product (NNP)	3550	
Private Investment (I)	710	
Imports (M)	227	
Exports (X)	100	
Government Purchases (G)	925	
Indirect Business Taxes (IBT)	366	
Net Interest (R)	354	

Required:

(a) Define the term 'Indirect Business Taxes' (IBT). **2 Marks**

(b) What is the value of Y? **5 Marks**

(c) Calculate the marginal propensity to save (MPS). **2 Marks**

(d) Determine the value of Capital Consumption Allowance (CCA). **2 Marks**

(e) If all income accrued by Malawians was spent only on consumption and saving, by how much would the national income increase if household income went up by $K700m$? **4 Marks**

(f) Mention **five** difficulties that are associated with calculating national income. **5 Marks**

(TOTAL: 20 MARKS)

Continued/……

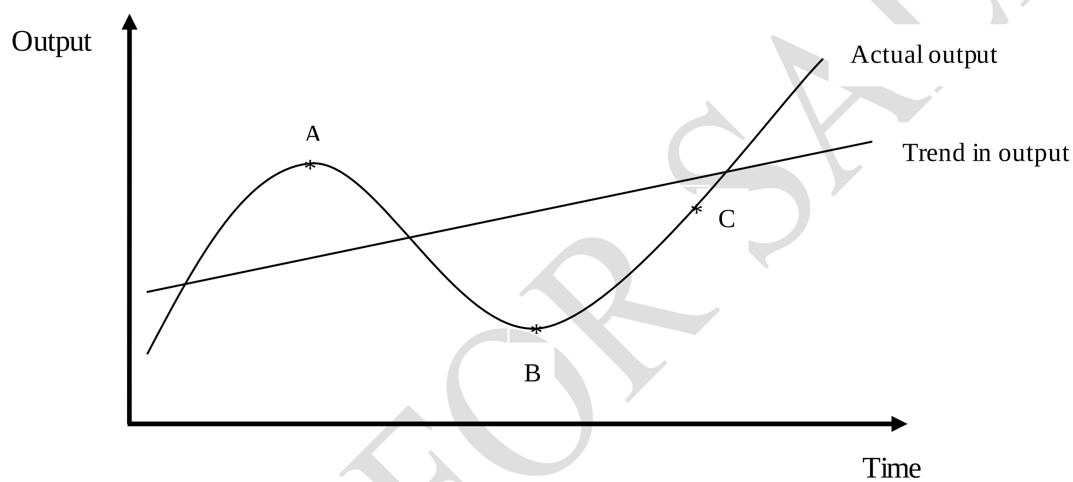
8. The Governments of Malawi is said to be pursuing economic policies that would ensure that there is investment in the country.

Required:

(a) Explain the meaning of the term *investment*. **2 Marks**

(b) Mention **four** factors that may influence the volume of investment in Malawi. **4 Marks**

(c) The figure below shows the relationship between investment and the business cycle. Carefully study the figure and answer the questions that follow:



(i) Briefly explain points A, B and C. **6 Marks**

(ii) Considering the way the country performed in 2012, which point best describes Malawi's economy? Briefly justify your answer. **3 Marks**

(iii) State any **five** characteristics of an economy at point B. **5 Marks**

(TOTAL: 20 MARKS)

9. (a) State the comparative advantage of international trade. **2 Marks**

(b) The data in the following table shows the number of labour hours required to produce one unit of maize and one unit of cassava. Carefully study the data and answer the questions that follow:

	Cassava	Maize
Malawi	6	10
Zambia	5	9

Assume both countries have the same number of workers and the terms of trade are 1:1.

Required:

(i) For Malawi, calculate the opportunity cost of producing maize with respect to cassava. **2 Marks**

(ii) For Zambia, calculate the opportunity cost of producing cassava with respect to maize. **2 Marks**

(iii) If the two countries were to trade, which product would you advise each country to produce and trade with the other? **6 Marks**

(iv) If the two countries were to trade without money (using barter trade), mention **four** limitations that these two countries would likely face. **4 Marks**

(c) Mention **four** arguments against protectionism. **4 Marks**

(TOTAL: 20 MARKS)

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