



**ZIMBABWE EZEKIEL GUTI UNIVERSITY**  
**FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING**  
**DEPARTMENT OF BUSINESS ADMINISTRATION AND MANAGEMENT**

**EXAMINATION PAPER**

**COURSE CODE** : CEC 111  
**COURSE TITLE** : PRINCIPLES OF ECONOMICS  
**DURATION** : 3 Hours  
**LEVEL** : 1.2  
**DATE** :

**SPECIAL REQUIREMENTS**

1. Graph Papers
2. Non-programmable calculators

**INSTRUCTIONS TO CANDIDATES:**

3. No cell phones are allowed in the examination venue.
4. Answer any **FOUR (4)** questions.
5. The number of marks for each question or part question is shown in brackets [ ]
6. Begin each answer on a new page.
7. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

## QUESTION ONE

### CASE STUDY: ECONOMIC SYSTEMS

The term 'communist bloc' was used in the West until the late 1980s to describe the operation of 25 economies under the Soviet sphere of influence. A characteristic of all these economies was an extensive central planning system, often termed a 'command economy'. The command economy dominated every aspect of life, telling factories where to buy their inputs, how much to pay their workers, how much to produce and where to sell their output. Individuals were trained in specialist schools and universities and directed to work at specific factories, which provided their wages, houses, health care, even holidays in enterprise-owned hotels and sanatoria. The national bank was told how much to lend to which factories and how much cash to print to pay wages. As a theoretical concept, central planning was very elegant. Using 'input-output' analysis (a planning framework which calculated the inputs required for each factory in order for it to deliver its planned outputs to the next stage in the production process), the planning ministry could calculate precisely how much labour, capital and raw materials each enterprise required to achieve its production targets. The various production targets for raw materials and intermediate and final products all fitted together to ensure a perfectly balanced expansion of the economy. Input and output prices were carefully set to ensure that all firms could pay their wage bills and repay loans from the national bank, while at the same time pricing consumer goods to encourage consumption of socially desirable goods (e.g. books, ballet, theatre, public transport, etc.) and discourage consumption of politically unfavoured goods (e.g. international telephone calls, cars, luxury goods).

#### Required:

- i. Why do you think the command economy failed to deliver many of the benefits claimed for it in the Case Study? [6 marks]
- ii. Can you find any clues in the Case Study to explain why the transition from a command economy to a market economy has proved to be so painful for many of these states? [6 marks]
- iii. What would you consider to be the potential advantages and disadvantages for these states seeking to move from a command to a mixed economy? [13 marks]

**QUESTION TWO**

	<b>Beef</b>	<b>Potatoes</b>
Price elasticity of demand	-1.25	-0.21
Income elasticity of demand	+0.08	-0.48

- i. Using the table above, explain the meaning of these estimates of elasticities and how the values recorded might be of use to the agricultural industry. **[10 marks]**
  
- ii. Write brief notes giving examples on the following:
  - a. Cross elasticity of demand **[5 marks]**
  - b. Excess capacity **[5 marks]**
  
- iii. How does change in demand differ from a change in the quantity demanded? **[5 marks]**

**QUESTION THREE**

<b>Output</b>	Total Cost	Total Fixed Cost	Total Variable Cost	Average Total Cost	Average Fixed Cost	Average Variable Cost	Marginal Cost
0	15	15	0			0	
1	30						
2	35						
3	39						
4	45						
5	60						

Given the diagram above, you are required to:

- i. Complete the above table. **[10 marks]**
- ii. Plot a diagram of cost function where you have the quantity on the X-axis and the cost on the Y-axis. (on that diagram show the Total Fixed Cost and Total Variable Cost) **[5 marks]**
- iii. Plot the graph below first one showing the Average Cost and the Marginal Cost. **[5 marks]**
- iv. Outline the relationship between total, average and marginal cost. **[5 marks]**

#### QUESTION FOUR

Assume the Zimbabwe is experiencing a recession:

- i. Identify possible remedies the Reserve Bank of Zimbabwe would implement through its monetary policy. **[12 marks]**
- ii. Identify possible remedies the National Treasury would implement through its fiscal policy. **[13 marks]**

#### QUESTION FIVE

- i. Assume there is a sudden increase in demand for Chinese products in Zimbabwe. Discuss the implications in terms of money supply and the value of the Zimbabwean dollar. **[10 marks]**
- ii. What measures should be taken by the government to increase local production of goods and services for exports to achieve the country's objective of balance of payment stability? **[15 marks]**

\*\*\*\*\*THE END\*\*\*\*\*