



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

**EXAMINATION PAPER**

**COURSE CODE** : CEC111  
**COURSE TITLE** : PRINCIPLES OF ECONOMICS  
**SPECIAL REQUIREMENTS** : GRAPH PAPERS,  
NON-PROGRAMMABLE  
CALCULATORS  
**DURATION** : 3 Hours  
**LEVEL** : 1.2  
**DATE** :

**INSTRUCTIONS TO CANDIDATES:**

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

### QUESTION ONE

Look carefully at Tables (i) and (ii) below which show national income in Country A, using the income and expenditure approaches respectively.

<b>(i) Income Method</b>		<b>(ii) Expenditure method</b>	
<b>National Account</b>		<b>National Account</b>	
<b>Items</b>	<b>Amount (\$)</b>	<b>Items</b>	<b>Amount (\$)</b>
Income from employment	1042.80	Expenditure by households	1189.60
Income from profit and rent	426.40	Expenditure by government and non-profit organizations	395.40
Other	157.20	Investment spending	334.20
GDP factor cost	1626.40	Exports-Imports	(-32.40)
Indirect cost less subsidies	260.40	GDP at market prices	1886.80
GDP at market prices	1886.80	Net property income from abroad	6.00
Net property income from abroad	6.00	GNP at market prices	1892.80
GNP at market prices	1892.80		

Using your economic knowledge on national Income Statistics,

- What do you notice from the above table? **[2 marks]**
- From Table (i), explain why GDP at market prices is higher than GDP at factor cost. **[5 marks]**
- From Table (i), explain why GNP at market prices differs from GDP at market prices. **[5 marks]**
- What types of income have not been included in Table (i) when measuring GDP or GNP? **[3 marks]**
- From Table (ii), identify 'aggregate expenditure'. **[2 marks]**
- From Table (ii), explain what contribution 'Exports-Imports' is making to calculate GDP at market prices. **[5 marks]**
- What types of expenditure have not been included in Table (ii) when measuring GDP or GNP? **[3 marks]**

## QUESTION TWO

A firm has the following costs for the short-run production of different qualities of a good:

Quantity (Q)	Total Cost (TC)
1	30
20	40
40	60
60	80
80	130
100	220

- i. Construct a diagram of the cost function. [4 marks]
- ii. Using information from the table, draw fixed cost (FC) and variable cost (VC) curves at different quantities produced. [6 marks]
- iii. Draw a new graph below the first one showing the marginal cost (MC), average total cost (ATC), average fixed cost (AFC) and average variable cost (AVC) curves. [5 marks]
- iv. Using the graphs in (i) and (iv), why do you think it is important for firms to know the cost concepts in the short-run? [10 marks]

## QUESTION THREE

Suppose that you are a member of the Board of Governors of the Reserve Bank of Zimbabwe. The economy is experiencing a sharp and prolonged inflationary trend. What changes in (i) Reserve Ratio (ii) the discount rate and (iii) open market operations would you recommend? Explain in each case as to how the changes you advocate would affect commercial bank reserves, the money supply, interest rates and aggregate demand. [25 marks]

## QUESTION FOUR

- a) Positive and negative externalities both constitute economic problems. Discuss. [13 marks]
- b) Giving Zimbabwe practical examples, in what way is monopolistic competition:
  - i. Similar to monopoly? [6 marks]
  - ii. Different from monopoly? [6 marks]

**QUESTION FIVE**

- a) "If Government levies an additional tax on luxury items, the prices of these items will rise. However, this will cause demand to decrease, and as a result the prices will fall back down, perhaps even to their original levels." Do you agree with this statement? Explain. **[15 marks]**
- b) Explain the concept of income elasticity and cross elasticity of demand and discuss their importance for a business firm of your choice in Zimbabwe. **[10 marks]**

*~~~~END OF PAPER~~~~*