



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

DEPARTMENT OF ECONOMICS, MARKETING AND ENTREPRENEURSHIP

EXAMINATION PAPER

MODULE CODE : CEC 111
MODULE TITLE : PRINCIPLES OF ECONOMICS
DURATION : 3 Hours
LEVEL : 1.1

11 APR 2025

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Use of silent, non-programmable calculators is allowed
3. Answer question number **one (1)** in Section A (Compulsory) and any other **three (3)** questions in Section B.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets []
6. Show all workings, where applicable.

SECTION A

Question 1: The economy as 'a machine'

The economy has been spoken about as if it were a machine. Its businesses are 'the engines of job creation'; they change 'inputs into outputs' and 'generate profits'. In this approach, markets are assumed to be productively efficient, consumers rational, incentives are obvious and outcomes certain. This means that any regulation of the market is undesirable because it hinders the workings of the machine.

However, there is no evidence that markets are always efficient and there is no evidence of a prosperous economy that does not also have strong regulation and an active government. Recessions and economic downturns should have caused this 'machine' idea of an efficient economy to be discredited. Yet, this view still influences economic policy.

What is required is a theoretical framework for the economy that recognises that economies are not simple and predictable but complex; that understands that intended outcomes do not always happen. Consumers' decisions are not precise but approximate. The economy should be thought of as 'a garden', not 'a machine'. In this idea the economy cannot be completely efficient but if managed effectively it can work reasonably well.

Consider regulation. In the 'machine' idea, regulation is an unfortunate interruption of the process of income generation. The machine should be left to run on its own. Perfectly free markets are the ideal. Less regulation will automatically lead to more prosperity. In the 'garden' idea it is recognised that the economy requires regulation. The control of harmful activities and the encouragement of beneficial activities will enable the economy to become more efficient.

Consider spending. Government spending should not be thought of as a single action which uses money as an engine uses fuel. Rather, it is part of a continuous process that circulates money through spending. Also, some of this spending helps to develop the economy because it will be spent on education, health and roads, although not all spending is equally useful.

It has been argued that the most prosperous economies are those that tax and spend the most. Less spending cannot revive a weak economy, but more spending can. Employment is not created by profits. It is a consequence of a circular process that starts with consumer demand and spending. The customer is the true job creator and resources are allocated according to their preferences.

Source: Adapted from the RSA Journal, Winter 2012

- (a) The article says that markets are assumed to be productively efficient. Explain what is meant by productive efficiency? [4 marks]
- (b) Summarise the **two** main ideas about the working of the economy in the article. [4 marks]
- (c) Analyse how more spending can 'revive a weak economy'. [7 marks]
- (d) Discuss whether the last sentence of the article conflicts with the earlier statements about the need for a government. [10 marks]

SECTION B

Question 2

Governments sometimes fix maximum prices on goods for different reasons.

Assess whether the use of a maximum price is always advantageous. [25 marks]

Question 3

Assess whether price elasticity of demand (PED) or income elasticity of demand (YED) is likely to be of greater importance to a firm producing cars. [25 marks]

Question 4

Assess whether the internal effects of inflation are more serious than the external effects of inflation for an economy. [25 marks]

Question 5

Consider the relative merits of gross national income (GNI) and the multidimensional poverty index (MPI) as measures of the standard of living. [25 marks]

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