



**STAMFORD COLLEGE**  
**SCHOOL OF BUSINESS, MARKETING AND ACCOUNTING**

**DIPLOMA IN BUSINESS ADMINISTRATION**  
**(SEMESTER 2)**

**DBA 105: ECONOMIC ENVIRONMENT**

**Date : 23 April 2007**

**Time : 2.00pm-4.00pm**

**Duration: 2 hours**

**Instructions To Candidates**

This paper consists of **THREE** Sections. Section A is **COMPULSORY**. Answer **ONE** questions from Section B and **ONE** question from Section C.

Please ensure that this examination paper contains **THIRTY** multiple-choice questions in Section A, **TWO** questions in Section B and **TWO** questions in Section C on **SEVEN** printed pages before you start the examination.

Books, paper and other written materials are not allowed to be brought into the examination hall. A candidate who violates the examination rules of Stamford College or commits a malpractice will be disqualified from the examination

Write your Examination Index Number on each page of your answer booklet.

Attached is the answer sheet for Section A.

Candidates are required to answer **ALL** questions in SECTION A. Circle the most appropriate answer in the answer sheet provided. Each correct answer merits **2** marks.

1. A point outside the production possibilities curve shows that the economy is :
  - A. producing the maximum output.
  - B. over utilising the resources.
  - C. unable to attain the production.
  - D. facing unemployment.
  
2. Opportunity cost is
  - A. the additional cost of buying an additional unit of a product.
  - B. a cost that cannot be avoided, regardless of what is done in the future.
  - C. the additional cost of producing an additional unit of output.
  - D. that which we forgo, or give up, when we make a choice or a decision.
  
3. A graph showing all the combinations of goods and services that can be produced if all of society's resources are used efficiently is a
  - A. circular-flow diagram.
  - B. capital consumption frontier.
  - C. Lorenz curve.
  - D. production possibility curve.
  
4. Suppose the demand for good Z goes up when the price of good Y goes up. we can say that goods Z and Y are
  - A. joint demand.
  - B. unrelated goods.
  - C. complements.
  - D. substitutes.
  
5. When the equilibrium price of a good falls and the equilibrium quantity of the good decreases, we can conclude that the following had happened:
  - A. demand increased.
  - B. demand decreased.
  - C. supply decreased.
  - D. supply increased.
  
6. If recent sharp increases in the price of shoes have had only a small effect on the amount of shoes purchased, then the demand for the shoes is:
  - A. elastic.
  - B. inelastic.
  - C. unitary elastic.
  - D. perfectly elastic.

7. Suppose that the initial price of beer is \$2, and the initial quantity demanded is 100 beer. If the price increases to \$2.20 and the quantity demanded falls to 90, what is the price elasticity of demand ?
- A. 0.50
  - B. 0.10
  - C. 0.01
  - D. 1.00
8. A firm's fixed costs
- A. are determined by dividing the total fixed cost by the amount produced.
  - B. are always larger than variable costs in the short- and long-run.
  - C. are the same no matter what quantity the firm produces.
  - D. are equal to zero only when the level of production is also zero.
9. If existing firms exit an industry,
- A. the market supply curve will shift to the left, market price will increase, and industry output will decrease.
  - B. the market supply curve will shift to the right, market price will fall, and industry output will increase.
  - C. the market demand curve will shift to the right, market price will rise and industry output will increase.
  - D. the market supply will shift to the right, product price will increase and market output will decrease.
10. If the average variable cost curve is rising,
- A. MC must be below AVC.
  - B. MC is neither rising nor falling.
  - C. MC is decreasing.
  - D. MC is bigger than AVC.
11. Monopoly competition differs from perfect competition because in monopoly competition
- A. there are few firms.
  - B. there are no barriers to entry.
  - C. there are many firms.
  - D. firms can differentiate their products.
12. Which of the following is NOT a condition of perfect competition?
- A. A large number of firms.
  - B. Similar products.
  - C. Perfect mobility of factors.
  - D. Informative advertising to ensure that consumers have good information.
13. Gross Domestic Product (GDP) measured using current prices is called :
- A. Nominal GDP.
  - B. Real GDP.
  - C. Constant GDP.
  - D. Deflated GDP.

14. Which of the following represents the equilibrium level of income for an open economy?
- A.  $AS = AD$ .
  - B.  $Y = C + I + G$ .
  - C.  $Y = C + I + G + (X - M)$ .
  - D.  $S + T = G + I$ .
15. Macroeconomics is the branch of economics that deals with
- A. the economy as a whole.
  - B. the functioning of individual industries and the behaviour of individual decision-making units - business firms and households.
  - C. imperfectly competitive markets.
  - D. only the long run adjustments to equilibrium in the economy.
16. The percentage of the labour force that is unemployed is the
- A. labour force rate.
  - B. unemployment population ratio.
  - C. employment rate.
  - D. unemployment rate.
17. Cyclical unemployment is the
- A. unemployment that occurs during recessions and depressions.
  - B. portion of unemployment that is due to the normal working of the labour market.
  - C. unemployment that results when people become discouraged about their chances of finding a job so they stop looking for work.
  - D. portion of unemployment that is due to changes in the structure of the economy that result in a significant loss of jobs in certain industries.
18. Government policies that focus on changing taxes and government spending are called
- A. incomes policies.
  - B. fiscal policies.
  - C. supply-side policies.
  - D. monetary policies.
19. A perfect competition industry in the long run earns only a :
- A. supernormal profit.
  - B. normal profit.
  - C. subnormal profit.
  - D. none of the above.

20. For a true or pure monopoly,
- A. there is only one seller of the product.
  - B. no close substitutes are available.
  - C. the firm and the industry are the same.
  - D. all of the above.
21. Assuming there is no government of foreign sector, if the multiplier is 2.5, the MPC is
- A. 0.4.
  - B. 0.25.
  - C. 0.6.
  - D. 2.5.
22. The following are the cost curve which is U-shaped **EXCEPT**:
- A. the average variable cost curve.
  - B. the average fixed cost curve.
  - C. the marginal cost curve.
  - D. the average total cost curve.
23. Cost-push inflation starts with
- A. increase in aggregate supply.
  - B. decrease in aggregate demand.
  - C. increase in short-run aggregate demand.
  - D. decrease in short-run aggregate supply.
24. When national output increase, the economy is said to be in a state of
- A. expansion.
  - B. recovery.
  - C. recession.
  - D. deflation.
25. A monopoly firm in the long run normally enjoys :
- A. a normal profit.
  - B. supernormal profit.
  - C. subnormal profit.
  - D. none of the above.
26. Which of the following measures constitutes contractionary fiscal policy?
- A. An increase in government purchases of goods and services.
  - B. An increase in transfer payment.
  - C. An increase in tax rates.
  - D. None of the above are contractionary fiscal policy.

27. The consumption function shows the relationship between consumption and \_\_\_\_\_, other things remaining the same .
- A. price.
  - B. consumption expenditure.
  - C. disposable income.
  - D. real GDP.
28. Government payments made to domestic firms in order to encourage exports are called
- A. tariffs.
  - B. subsidies.
  - C. export quotas.
  - D. side payments.
29. The term tariff, as used in international trade, refers to
- A. a tax on imports.
  - B. a government payment to encourage exports.
  - C. a limit on the quantity of a good that can be imported into a country.
  - D. the price of goods when they leave the producing country.
30. Terms of trade for a country are the ratio of \_\_\_\_\_ to \_\_\_\_\_ .
- A. its currency; other currencies.
  - B. value of exports; value of imports.
  - C. its opportunity costs; world opportunity costs.
  - D. export prices; import prices.

(Total = 60 Marks)

SECTION B consists of TWO questions. Candidates are required to answer any ONE question.

### Question 1

- (a) What do you understand by a market economy? (8 marks)
- (b) Explain the reasons for government intervention in a market economy. (12 marks)
- (Total: 20 Marks)

### Question 2

- (a) Explain the following:
- i) Public goods (2 marks)
  - ii) Demerit Goods (2 marks)
  - iii) Merit Goods (2 marks)
- (b) Explain the concept of Minimum and Maximum pricing (6 Marks)
- (c) Briefly explain the factors influencing price elasticity of demand. (8 Marks)
- (Total = 20 Marks)

SECTION C consists of TWO questions. Candidates are required to answer any ONE question.

### Question 3

- (a) Distinguish between GDP and GNP. (4 marks)
- (b) What are the methods of calculating National Income figures of a country? Briefly explain each method. (10 marks)
- (c) Explain any FOUR uses of National Income figures. (6 marks)
- (Total = 20 Marks)

**Question 4**

- a) Discuss the various causes of inflation. (10 marks)
- b) Explain the policies undertaken by government to overcome inflation. (10 marks)
- (Total: 20 Marks)

**- END OF PAPER -**