NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF BANKING

BACHELOR OF COMMERCE HONOURS DEGREE IN BANKING

PRINCIPLES OF MACRO ECONOMICS   **CBA 1205**

FINAL EXAMINATION   **MAY/JUNE 2005**

INSTRUCTIONS TO CANDIDATES

(i) Duration: 3 hours.
(ii) Answer **Question 1** and any other **3 Questions.**
(iii) All questions carry equal marks

QUESTION 1

The following is a national income model.

$C = Co + 0,8Yd$

$I = 500$

$Co = 800$

$G = 500$

$X = 400$

$M = 0,3Y$

$T = 0,4Y$

Where: C   =   Consumption expenditure
            I   =   Investment Expenditure
            G   =   Government expenditure
            X   =   Exports
            M   =   Imports
            T   =   Tax revenue
            Yd   =   Disposable income
            Co   =   Autonomous Consumption

QUESTION 1 [CONT...]

(i)   Derive the equilibrium condition for the model and determine the equilibrium level of national income.   **[10]**

(ii)   Determine the economy's national income multiplier.   **[5]**

(iii)   Suppose the tax rate changes from 40% to 50% and the marginal propensity to import falls form 30% to 20%; Determine the new equilibrium income. Explain the impact of these two changes using appropriate diagrams.   **[15]**

QUESTION 2

(a)   What are the major causes of inflation and what policy measures can the authorities take to reduce inflationary pressures.   **[15]**

(b)   Clearly explain how high and unstable inflation distorts each of the functions of money in an economy.   **[10]**

QUESTION 3

"Free trade makes it possible to maximise world production and makes it possible for every household in the world to consume more goods than it could without free trade". Evaluate this statement in the light of the arguments for and against free trade in a country.

                                                                                        [25]

QUESTION 4

What is money demand? Clearly explain how the four schools of thought define money demand, motives for holding money, formulation of the function and the implications for economic activity.   **[25]**

QUESTION 5

(a)   Describe what is meant by devaluation of a country's currency.
                                                                                        [10]

(b)   Explain the likely internal and external effects of a fall in the values of your country's currency.   **[15]**

END OF EXAMINATION PAPER