

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY  
FACULTY OF COMMERCE  
DEPARTMENT OF BANKING**

**PRINCIPLES OF MACRO ECONOMICS  
CBA 1205**

**FINAL EXAMINATION**

**MAY 2008**

**TIME: 3 HOURS**

**INSTRUCTIONS TO CANDIDATES**

**Answer any FOUR (4) questions.**

**Indicate on your answer booklet whether you are in the conventional or parallel programme.**

**INFORMATION FOR CANDIDATES**

**The number of marks is given in brackets [ ] at the end of each question or part question.**

**Questions may be written in any order, but must be legibly numbered.**

**The businesses in this question paper are intended to be fictitious.**

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**[Turn over]**

### **QUESTION 1**

- (a) Draw an aggregate demand-aggregate supply diagram where equilibrium is in the Keynesian range of the aggregate supply curve. **[3 Marks]**
- (b) Assume that the Aggregate demand curve shifts from the equilibrium in (a) above to the classical range only to fall back to the Keynesian range the following year. Locate the new equilibrium position on the assumption that prices and wages are:
- (i) completely flexible and **[3 Marks]**
- (ii) completely rigid downwards **[4 Marks]**
- (c) (i) Which of the two equilibrium positions is more desirable? Why? **[3 Marks]**
- (ii) Which is more realistic? Why? **[3 Marks]**
- (d) What developments may cause such shifts in aggregate demand? **[5 Marks]**
- (e) Explain how the price level might be ratcheted upwards when aggregate demand increases. **[4 Marks]**

**TOTAL**

**[25 MARKS]**

### **QUESTION 2**

“Keynesians argue that a budget deficit will stimulate the economy. The historical evidence in Zimbabwe is highly inconsistent with this view. For the past 10 years, the budget deficits have been associated with serious recessions, not expansions. Budget deficits do not stimulate Gross National Product and employment.” Do you agree with this way of thinking regarding the Zimbabwean economy? Discuss.

**TOTAL**

**[25 MARKS]**

### **QUESTION 3**

- (a) Outline the main sections and principal items of the Balance of Payments. **[10 Marks]**
- (b) Discuss some of the important measures, which can be taken to correct an unfavourable BOP position. **[15 Marks]**

**TOTAL**

**[ 25 MARKS]**

## QUESTION 4

Assuming an open economy with government intervention;

Consumption = 40 billion + 0.6 $Y_d$

Government expenditure = 200 billion

Investment = 100 billion

Exports = 250 billion

Imports = 0.4 $Y_d$

Taxation = 0.2 $Y$

$Y_d$  = Disposable Income

Investment, Government and Exports are assumed to be constant all levels of income.

- (a) What is the equilibrium level of National Income? **[5 Marks]**
- (b) What is the value of the multiplier? **[4 Marks]**
- (c)
- (i) What is the meaning behind fractional marginal propensities to consume, save and tax? **[5 Marks]**
- (ii) What are the implications of extreme cases of these magnitudes? **[3 Marks]**
- (iii) Show and briefly explain how marginal propensity to consume and how marginal propensity to save are related. **[3 Marks]**
- (d) How realistic is the assumption that, investment, government expenditure and exports are constant at all levels of income. **[5 Marks]**

**TOTAL**

**[25 MARKS]**

## QUESTION 5

- (a) What do you understand by the following terms as applied to national income accounting:
- (i) Gross Domestic Product at factor cost **[2 Marks]**
- (ii) Gross National product at market prices **[2 marks]**
- (iii) Imputed charge for the consumption of non-traded capital. **[2 marks]**
- (b) From the data below, calculate the Net National Product at factor cost.

	<b>Z\$ Billion</b>
Imports	10 000
Gross domestic private Investment	500
Indirect Tax	1 000
Government Expenditure	25 000
Exports	6 000
Value of Physical increase in Stock	1 200
Net Property Income from Abroad	400
Consumer Expenditure	58 000
Capital Consumption	800

**[13 Marks]**

- c) State six problems in using the national income statistics in comparing the standards of living among different countries **[6 Marks]**

**TOTAL**

**[25 MARKS]**

**QUESTION 6**

- (a) How is inflation measured? **[5 Marks]**  
(b) What are the causes of inflation? **[6 Marks]**  
(c) When inflation increases, what is to be expected on the levels of unemployment? How far is this applicable to the Zimbabwean situation? **[6 Marks]**  
(d) What are the consequences of inflation in Zimbabwe? **[8 Marks]**

**TOTAL**

**[25 MARKS]**