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

PRINCILPES OF MACRO ECONOMICS
CBA 1205

FINAL EXAMINATION   **AUGUST 2009**

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

The following data relates to an economy in Africa

Consumption function: $C = 100 = 0.8 Y$ ......(1)
Investment function: $I = 100$ ....(2)
                                         $AE = C + I$ ....(3)
                                         $AE = Y$ ....(4)

a)   What is meant by marginal propensity to consume and marginal propensity to save? What are the numerical values of these two concepts for the economy depicted above?   [5 marks]

b)   Determine the equilibrium level of income.   [3 marks]

Suppose equation (2) were changed to $I = 100$
c)   What is the new equilibrium level of income?   [3 marks]

d)   Determine the value of the multiplier. Of what significance is the multiplier to policy makers?   [5 marks]

e)   Calculate the savings function of this economy.   [5 marks]
f)   Making use of the consumption function given above, explain the concept of autonomous consumption. How is it possible that autonomous consumption can be positive?   [4 marks]

TOTAL   **[25 MARKS]**

QUESTION 2

a)   What are the arguments for and against trade restrictions?   [10 marks]

b)   The following is data which shows a summary of Eldorado's balance of payments for a particular year. The items are presented in random order:

	$Billions
Visible exports	400
Net Private Investment	320
Visible Imports	480
Repayment to IMF loan	100
Balancing item	120
Invisible exports	240
Change in reserves	?
Invisible imports	200

Calculate:

i)   The Balance of Trade   [3 marks]
ii) The Balance on Current Account   [4 marks]
iii) The Balance for Official Financing   [4 marks]
iv) What will be change in reserves as a result of these flows?   [4 marks]

   TOTAL   **[25 MARKS]**

QUESTION 3

a)   Briefly explain what is meant by the following terms:

     i)   Fixed exchange rate regime   [3 marks]
     ii)   Floating exchange rate regime   [3 marks]
     iii) Managed or dirty floats   [3 marks]

b)   What is meant by exchange rate devaluation?   [5 marks]
c)   Distinguish between depreciation and devaluation.   [5 marks]
d)   Examine the importance of a stable currency to economic growth and development.
                                                                            [6 marks]

TOTAL   **[25 MARKS]**

QUESTION 4

a)   Critically discuss Gresham's law which states that " bad money drives out good"
     giving relevant practical examples.   [10 marks]

b)   What are the consequences of inflation and what policy measures can the
     authorities take to reduce inflationary pressures?   [15 marks]

TOTAL   **[25 MARKS]**

QUESTION 5

Briefly discuss the major economic problems that Zimbabwe is currently facing and suggest
any possible solutions.   [25 marks]

TOTAL   **[25 MARKS]**

QUESTION 6

What types of unemployment exist in the Zimbabwean economy and how can government solve each of the different types of unemployment that you have mentioned?

[25 marks]

TOTAL   **[25 MARKS]**