

**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**

SUPPLEMENTARY EXAMINATION

OCTOBER 2009

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

- The paper contains **SIX (6)** questions.
- Attempt any **FOUR (4)** questions.
- All questions carry equal marks [**25 marks**].
- Start the answer to each question on a fresh page of the answer sheet.
- Indicate on your answer booklet whether you are in the conventional or parallel programme

INFORMATION FOR CANDIDATES

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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QUESTION 1

The following data relates to an economy in Africa

Consumption function: $C = 100 + 0.8 Y \dots\dots(1)$

Investment function: $I = 200 \dots\dots\dots(2)$

$$AE = C + I \dots\dots\dots(3)$$

$$AE = Y \dots\dots\dots(4)$$

- 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 $I = 300$

- 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	500
Net Private Investment	420
Visible Imports	580
Repayment to IMF loan	200
Balancing item	220
Invisible exports	340
Change in reserves	?
Invisible imports	300

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) Dollarisation. [3 marks]
- b) What is meant by exchange rate revaluation? [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 faced from 1997 to 2008 and critique the policy measures that were used to address them. [25 marks]

TOTAL [25 MARKS]

QUESTION 6

- a) Which types of unemployment exist in the Zimbabwean economy? [10 marks]
- b) Describe the Phillips' curve and examine whether it fits into the Zimbabwe economy. [15 marks]

TOTAL [25 MARKS]