

**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

AUGUST 2010

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

- Answer any **FOUR (4)** questions
- 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
- Show all your workings
- Questions may be written in any order, but must be legibly numbered.

INFORMATION FOR CANDIDATES

- The paper contains **SIX (6)** questions.
- All questions carry equal marks [25 marks].
- The businesses in this question paper are intended to be fictitious.

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Turn over

QUESTION 1

Between 1998 and 2009, the Zimbabwean economy has experienced high unemployment, high inflation rate, foreign currency shortages and capital flight. What in your opinion should be solutions to each of these economic problems?

TOTAL

[25 MARKS]

QUESTION 2

The following data relates to an economy in Africa

Consumption function:	$C = 100 + 0.8 Y_d$	(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 $I = 200$

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 3

- a) What are the arguments for and against trade restrictions? [10 marks]
- b) The following is data that shows a summary of El Paradiso's balance of payments for a particular year. The items are presented in random order:

	\$Billions
Visible exports	800
Net Private Investment	320
Visible Imports	495
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 the be change in reserves as a result of these flows? [4 marks]

TOTAL [25 MARKS]

QUESTION 4

- a) "Keynesians argue that a budget deficit will stimulate the economy. The historical evidence of the Zimbabwean economy is highly inconsistent with this view. For the past 10 years, deficit spending has been associated with recessions, not expansions." Discuss this observation about Zimbabwe's economy. [15 marks]
- b) What is meant by fixed exchange rate regime? [5 marks]
- c) In your view, does devaluation work for an economy like that of Zimbabwe? [5 marks]

**TOTAL
0. [25 MARKS]**

QUESTION 5

- 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 6

What types of inflation existed in the Zimbabwean economy between 1990 and 2009?
Suggests solutions for each of the different types of inflation that you have identified?

TOTAL [25 MARKS]