

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

DEPARTMENT OF BANKING

**PRINCIPLES OF MACRO ECONOMICS
[CBA 1205]**

FINAL EXAMINATION

MAY 2011

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

- Answer any **FOUR (4)** questions.
- Start the answer to each full question on a fresh page of the answer sheet
- Indicate on your answer booklet whether you are in conventional or parallel programme.
- Show all workings.
- Questions may be written in any order, but must be legibly numbered.

INFORMATION FOR CANDIDATES

The paper contains six (6) questions.

All whole questions carry equal marks [25 marks] and part marks are indicated in brackets at the end of each part question.

The economies in this question paper are intended to be fictitious.

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[Turn Over]

QUESTION 1

- a) 'The Keynesian and Monetarist views on the causes of inflation and unemployment differ mainly in terms of the underlying factors'. Evaluate this statement, clearly demonstrating the convergence or divergence of the two schools of economic thought. [10 marks]
- b) Assess the applicability of the Phillips Curve theory to any emerging economy you have studied. [15 marks]

[25 MARKS]

QUESTION 2

Study the data below for Zimboland and attempt the questions that follow:

SCHEDULE A

	Billions (US dollars)
Income from employment	226.4
Gross Trading Profits of companies	65.6
Gross Trading Surpluses of public companies	6.4
Stock Appreciation	4.9
Interest income	3.2
Income from Rent	24.8
Income from self-employment	33.0

SCHEDULE B

	Billions (US dollars)
Agriculture, forestry and fishing	5.9
Energy and Water	24.2
Construction	21.5
Manufacturing	85.6
Adjustment for financial services	20.6
Services and distribution	237.9

- a) Use the income approach and the output approach to calculate Gross Domestic Product at Factor Cost for Schedule A and Schedule B respectively. [17 marks]
- b) Comment on the additions or subtractions that you made to ensure agreement between the two methods of measuring national income. [8 marks]

[25 MARKS]

QUESTION 3

- a) 'Many economists believe the economy's self-corrective mechanism works quite slowly and that discretionary policy changes are necessary to minimize economic instability. Others believe that the self –corrective mechanism works reasonably well and that discretionary policy is likely to do more harm than good.' Use the Aggregate Demand (AD)-Aggregate Supply (AS) model and the policy transmission mechanism to discuss this assertion. [13 marks]
- b) Study the following table and answer the questions which follow:

Country	Wheat (in tonnes)	Fish (in tonnes)
Malaysia	0.5	2
Malawi	0.25	1.5

- i) Compute opportunity cost ratios and present them in a well-labelled table. [4 marks]
- ii) Use the opportunity cost table to deduce how Malaysia and Malawi will specialize. [4 marks]
- iii) Deduce the mutually beneficial trading ratio and explain the gains from specialization that will be enjoyed by Malaysia and Malawi. [4 marks]
- [25 MARKS]**

QUESTION 4

- a) You are given the following items in the Balance of Payments (BOPs) schedule for Eldorado Republic:

	Billions (US dollars)
Eldorado visible exports	300
Net Unilateral Transfers	+80
Net Factor Income	(15)
Eldorado invisible imports	115
Balancing item	15
Eldorado visible imports	67
World Bank loan to Eldorado	24
Contributions of Eldorado to the African Development Bank	76
Eldorado invisible exports	210

Calculate:

- i) The Visible Balance [2 marks]
- ii) The Balance on Current Account [4 marks]
- iii) The Balance of Payments (BOPs) position [4 marks]
- iv) Comment on changes in reserves [6 marks]
- b) Explain the Purchasing Power Parity (PPP) theory in the context of exchange rate determination in foreign exchange markets. [9 marks]

[25 MARKS]

QUESTION 5

- a) Between the year 2000 and 2008, Zimbabwe experienced a mosaic of chronic macroeconomic problems. Identify and briefly explain three such problems. [12 marks]
- b) Assess the suitability of technology-driven strategies and import-substitution industrialization for the Zimbabwean economy. [13 marks]

[25 MARKS]

QUESTION 6

- a) Explain the consequences of price-controls in light of Zimbabwe's economic experiences in the period 1980-1990 and in the year 2008. [12 marks]
- b) Evaluate the relevance of the credit-creation mechanism to the Zimbabwean economy during the current dispensation of multi-currencying.[13 marks]

[25 MARKS]