



NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF BANKING

PRINCIPLES OF MACROECONOMICS [CBA 1205]

FINAL EXAMINATION

APRIL /MAY 2015

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

- Answer any four questions.
- Start the answer to each full question on a fresh page of the answer sheet.
- All calculations are to be presented in good style and workings should be shown.

INFORMATION FOR CANDIDATES

- The businesses in this question paper are intended to be fictitious.
- Statistical tables may be provided at your request
- Use of a calculator is permissible

This paper consists of 4 printed pages

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QUESTION ONE

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

	Billion (US Dollars)
Imports	1200
Gross domestic private Investment	80
Indirect taxes	120
Subsidies	80
Government Expenditure	3000
Exports	500
Net Factor Payments from abroad	50
Capital Consumption Allowance	70
Value of Physical Increase in inventory	150
Consumer Expenditure	6000

[14 marks]

- (c) State any five problems of using national income statistics in comparing the standards of living among different countries. [5 marks]

TOTAL: 25 MARKS

QUESTION TWO

- (a) What are the arguments for and against trade restrictions? [10 marks]
- (b) The following is data which shows a summary of Tshuk's Balance of Payments (BOPs) for a particular year. The items are presented in haphazard order:

	Billion (US Dollars)
Visible Exports	500
Net Private Investment	420
Visible Imports	580
Repayments to IMF loan	200
Balancing Item	220
Invisible Exports	340
Change in reserves	?
Invisible imports	300

Compute:

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

TOTAL: 25 MARKS

QUESTION THREE

(a) Study the following table and answer the questions which follow:

Country	Wheat (in tonnes)	Fish (tonnes)
South Africa	2	8
Zambia	1	6

- (i) Which country has an absolute advantage in the production of both wheat and fish? [1 mark]
- (ii) Using the comparative advantage theory, deduce how South Africa and Zambia should specialise. [10 marks]
- (b) With the aid of well labelled diagrams, distinguish between free exchange rate market regimes and fixed exchange rate regimes. [8 marks]
- (c) What are the positive and negative impacts of an overvalued currency to an emerging economy? [6 marks]

TOTAL: 25 MARKS

QUESTION FOUR

You are given the following information about an economy in Africa

“An important function of banks is the credit creation process. It is this activity that enables banks to manufacture money” (Dullien, 2009).

Assume that there are three banks in this economy.

Assume that each bank has to keep 10% of their funds as cash reserves according to law.

January 1 : Ncube deposits \$ 2000 with bank A.

January 3 : Sibanda approaches bank A and asks for a loan equivalent to everything that bank A can lend.

January 10 : Sibanda purchases goods from Dube with all the loan money and pays cash. Dube takes the money and deposits the amount with Bank B.

January 20 : Bank B, after taking cognizance of the reserve requirements lends all that it has to Maruta. Maruta purchases goods equivalent to the loan amount from Chiziviso. Chiziviso deposits the proceeds with bank C, who loan out the funds to Fanrette Enterprises.

Required:

- i. Show the individual balance sheets of Bank A, Bank B and Bank C. [9 marks]
- ii. Show the overall position of the banking system after all these transactions have taken place, clearly showing the total deposits, total Cash reserve and total loans disbursed in this economy. [6 marks]
- iii. Calculate the credit multiplier for this economy. [2 marks]
- iv. Calculate the total money created in this economy. [2 marks]
- v. State and explain three limitations of the credit creation process. [6 marks]

TOTAL :25 MARKS

QUESTION FIVE

Discuss the monetary and fiscal policy instruments governments may use to address either an inflationary or deflationary gap that may arise in an economy. [25 marks]

TOTAL: 25 MARKS

QUESTION SIX

- (a) Distinguish between economic growth and economic development [4 marks]
- (b) Briefly explain any two economic development strategies [6 marks]
- (c) The Keynesians and Monetarists have diverging views on the causes of inflation and unemployment. Evaluate their views, clearly showing the points of convergence or divergence of the two schools of economic thought.

[15 marks]

TOTAL: 25 MARKS