

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF BANKING

PRINCIPLES OF MACROECONOMICS [CBA 1205]

SUPPLEMENTARY EXAMINATION

JULY 2015

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

- Answer any 4 questions
- Start the answer to each question on a fresh page of the answer sheet.

INFORMATION FOR CANDIDATES

- The paper contains **SIX (6)** questions.
- All questions carry equal marks [**25 marks**]

Questions may be written in any order, but must be legibly numbered.

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

This paper consists of 7 printed pages
Copyright: National University of Science and Technology, 2014

[Turnover]

QUESTION ONE

- (a) Explain the usefulness of national income statistics and discuss the problems experienced in using these statistics. [12 marks]
- (b) Study the data below for Goshen Republic and attempt to answer the questions that follow:

	Billions (US Dollars)
Income from employment	426.4
Gross Trading profits	65.6
Gross Trading surplus of State–Owned companies	-15.7
Stock Appreciation	4.9
Interest Income	3.2
Income from rent	24.8
Depreciation	9.5
Net factor payments received from abroad	29
Income from Self-employment	33

- (c) Use the income approach to calculate Net National Product at factor cost. [13 marks]

TOTAL: 25 MARKS

QUESTION TWO

- (a) Draw an aggregate demand-aggregate supply diagram where equilibrium is in the Keynesian range of the supply curve. [5 marks]

- (b) The following is a national income model:

Consumer Expenditure $C = 100 + 0.75Y$

Investment Expenditure $I = 200$

Government Expenditure $G = 300$

- (i) Explain the concept of marginal propensity to consume and marginal propensity to save. [5 marks]

- (ii) State the equilibrium condition and calculate the equilibrium level of national income [5 marks]

Suppose that Investment Expenditure rises from the initial value, $I = 200$ to $I = 400$,

- (iii) What is the new equilibrium level of income ? [3 marks]
(iv) Determine the value of the multiplier. [2 marks]
(v) State the factors that limit the size of the multiplier in an economy. [5 marks]

TOTAL: 25 MARKS

QUESTION THREE

- (a) Outline the main sections and principal items of the Balance of Payments (BOPs). [15 marks]
(b) Explain the criticism of Purchasing Power parity (PPP) theory in the determination of exchange rates in foreign exchange markets. [10 marks]

TOTAL: 25 MARKS

QUESTION FOUR

- (a) Outline the major functions of money. [7 marks]
(b) Using Keynes liquidity preference theory, explain why people demand money. [18 marks]

TOTAL: 25 MARKS

QUESTION FIVE

- (a) Describe the types of unemployment that exist in the Zimbabwean economy. [10 marks]
(b) Discuss the consequences of inflation. What policy measures can the authorities take to reduce inflationary pressures? [15 marks]

TOTAL: 25 MARKS

QUESTION SIX

- (a) What are the goals of monetary policy? [5 marks]
- (b) Discuss the various tools of monetary policy. To what extent have these tools been effective in Zimbabwe? [20 marks]

TOTAL: 25 MARKS