

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF BANKING

APPLIED ECONOMICS II

CBA 4203

SUPPLEMENTARY EXAMINATION

AUG 2008

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

This paper contains FIVE (5) questions.

Answer any FOUR questions.

All Questions carry [25] Marks each.

Start the answer to each full question on a fresh page.

Indicate on your answer booklet whether you are in the conventional or parallel programme.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

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

This paper consists of 3 printed pages

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QUESTION 1

In closed economy “fiscal policy is more effective the more interest elastic is the demand for money and the less interest elastic is the demand for investment goods. Discuss, with the aid of diagrams. (25 Marks)

TOTAL

[25 MARKS]

QUESTION 2

- (a) Discuss the major ways that can be used by the government to finance its national debt (13 Marks)
- (b) What impact do these have on financial markets (12 Marks)

TOTAL

[25 MARKS]

QUESTION 3

- (a) To what extent can the parallel foreign exchange market cause financial crisis and jeopardise the effectiveness of monetary policy? (15 Marks)
- (b) What measures would you recommend for the eradication of such a parallel market in a country like Zimbabwe? (10 Marks)

TOTAL

[25 MARKS]

QUESTION 4

You have been appointed an advisor to IMF. Zimbabwe has been running a trade deficit for many years now and has difficulty in servicing its accumulated debt and wants to borrow from the IMF to meet its obligations. The IMF requires that the country set a target trade surplus.

- (a) What monetary and fiscal policies would you suggest the IMF require of Zimbabwe? (9 Marks)
- (b) What would be the likely effect of that plan on the country’s domestic inflation and growth? (9 Marks)
- (c) How do you think the country’s government would respond to your proposal? (7 Marks)

TOTAL

[25 MARKS]

QUESTION 5

- (a) To what extent do the following theories explain household savings behaviour.
- i. Absolute income hypothesis (4 Marks)
 - ii. The general intertemporal theory (4 Marks)
 - iii. The permanent income hypothesis (4 Marks)
 - iv. The life cycle hypothesis (4 Marks)
- (b) What are the policy implications of the above theories (9 Marks)

TOTAL

[25 MARKS]