

**NATIONAL UNIVERSITY OF SCIENCE AND
TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF BANKING
BACHELOR OF COMMERCE HONOURS DEGREE IN
BANKING
APPLIED ECONOMICS II
CBA 4203**

FINAL EXAMINATION

AUGUST 2009

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

- The paper contains **SIX (6)** questions.
- Answer any **FOUR (4)** questions.
- All questions carry equal marks [**25 marks**].
- 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.

INFORMATION FOR CANDIDATES

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

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

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QUESTION 1

- a) What is meant by the Balance Of Official Financing (BOF)
[3 marks]
- b) What factors determine the slope of the BOF in the open economy ISLM model?
[4 marks]
- c) Given your answer to (b) above, what slope would you expect the BOF line in Zimbabwe to be? Give practical reasons for your answer.
[6 marks]
- d) Given your answer in (C), discuss the problems that the reserve bank of Zimbabwe faces in trying to reduce money supply in Zimbabwe.
[12 marks]

TOTAL [25 MARKS]

0

QUESTION 2

Budget deficits, if not properly managed could have adverse effects on the whole economy.

- a) Examine the relationship between the budget deficit and other sectors of the economy using the three-gap model. [13 marks]
- b) Discuss how various ways of financing deficits impact on the economy.
[12 marks]

TOTAL [25 MARKS]

QUESTION 3

- a) Distinguish between floating and fixed exchange rates and how these affect The Balance Of Payments (BOP). [12 marks]
- b) Under what conditions can devaluation be effective in financing trade deficits?
[13 marks]

TOTAL [25 MARKS]

QUESTION 4

The following equations describe an economy.

$$C = 0,8(1-t)Y$$

$$t = 0,25$$

$$I = 900 - 50i$$

$$G = 800$$

$$L = 0,25Y - 62,5i$$

$$M = 500$$

- a) What is the equation that describes the IS curve? [4 marks]
- b) What is the general definition of the IS curve? [3 marks]
- c) What is the equation that describes the LM curve? [4 marks]
- d) What is the general definition of the LM curve? [3 marks]
- e) What are the equilibrium levels of income and interest rates? [6 marks]
- f) Describe the conditions that are satisfied at the intersection of the IS and LM curves, and explain why this is an equilibrium. [5 marks]

TOTAL

[25 MARKS]

QUESTION 5

- a) Discuss how an increase in the currency- deposit ratio and an increase in the reserve – deposit ratio affect money supply in an economy. [10 marks]
- b) Assume the required reserves were zero. Would banks hold any reserves [15 marks]

TOTAL

[25 MARKS]

QUESTION 6

To what extent do the following impact on the effectiveness of fiscal and monetary policies.

- | | |
|---|-------------------|
| a) Interest elasticity of money demand | [13 marks] |
| b) Interest elasticity of investment demand | [12 marks] |
| TOTAL | [25 MARKS] |