

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF BANKING
BACHELOR OF COMMERCE HONOURS DEGREE IN BANKING**

**APPLIED ECONOMICS II
[CBA 4203]**

SUPPLEMENTARY EXAMINATION

AUGUST 2010

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

- Answer any **FOUR (4)** questions.
- 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.
- 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 questions carry equal marks [25 marks].**
- **The businesses in this question paper are intended to be fictitious.**

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Turn over

QUESTION ONE

Determine using the IS-LM model, the impact of changes in the following variables on equilibrium income and interest rates:

- a) Exports [12 marks]
- b) Marginal propensity to import [13 marks]

TOTAL [25 MARKS]

QUESTION TWO

To what extent can the three gap model fit into the Zimbabwean economic situation for the Zimbabwean dollar era? [25 marks]

TOTAL [25 MARKS]

QUESTION THREE

- a) What are the determinants of money demand in an economy? [15 marks]
- b) What slope of the money demand function can you expect for the Zimbabwean economy? Give practical reasons for your answer. [10 marks]

TOTAL [25 MARKS]

QUESTION FOUR

- 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 before the multicurrency era? Give practical reasons for your answer. [6 marks]
- d) Given your answer in (c), discuss the problems that the reserve bank of Zimbabwe faced in trying to reduce money supply in Zimbabwe during the Zimbabwean dollar era. [12 marks]

TOTAL [25 MARKS]

QUESTION FIVE

- a) What is meant by the term sterilisation in an open economy and why is it necessary? [10 marks]
- b) How effective is monetary policy in flexible exchange rate economy? [15 marks]

TOTAL

[25 MARKS]

QUESTION SIX

- a) What is the general definition of the IS curve? [4 marks]
- b) What factors determine the slope of the IS curve? [6 marks]
- c) To what extent does the slope of the IS curve determine the effectiveness of fiscal and monetary policy? [15 marks]

TOTAL

[25 MARKS]