

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF THE BUILT ENVIRONMENT
BACHELOR OF QUANTITY SURVEYING (HONOURS) DEGREE
PART I SECOND SEMESTER EXAMINATIONS- AUGUST 2009**

PRINCIPLES OF MACROECONOMICS – AQS 1204

SUPPLEMENTARY EXAMINATION

TIME: 3 HOURS

TOTAL MARKS: 100

INSTRUCTIONS TO CANDIDATES:

Answer any FOUR questions

Question 1

- a) Describe with the aid of a diagram the circular flow model of national income. [9]
- b) State any seven uses of national income statistics. [7]
- c) What are the major shortcomings encountered in the measurement and use of national income figures? [9]

Question 2

The following is a national income model:

$$\begin{array}{lcl} C & = & 650 + 0.9 Y \\ I & = & 500 \\ G & = & 650 \end{array}$$

Where C = Consumption expenditure; I = Investment expenditure;
G = Government expenditure

- a) State the equilibrium condition and calculate the equilibrium level of national income. [6]
- b) Show the following situation on the income-expenditure diagram:
Investment rises by \$100 to \$600, so that I = 600. [6]
- c) Determine the economy's national income multiplier. [3]
- d) Briefly state some of the factors that limit the size of the multiplier in an economy. [5]
- e) Explain briefly the multiplier-accelerator interaction. [5]

Question 3

a) Given the following items in the Balance of Payments:

	\$Billion
Zimbabwe visible exports	200
Net transfers	+160
Net investment income	30
Zimbabwe invisible imports	230
Zimbabwe visible imports	134
Balancing item	16
Zimbabwe invisible exports	420
Capital inflow to Zimbabwe	48
Capital outflow from Zimbabwe	152

Calculate:

- i) The Balance of Trade [3]
 - ii) The Balance on Current Account [4]
 - iii) The Balance of the Capital Account [4]
 - iii) The Balance for Official Financing [4]
- b) What are the arguments for and against trade restrictions? [10]

Question 4

- a) Explain the meaning of the term dollarisation. [4]
- b) What are the main functions of money in an economy? [6]
- c) In your view do you think the Zimbabwe dollar should be restored? Support your view. [5]
- d) Examine the various methods that monetary authorities can use to ensure price stability and employment. [10]

Question 5

From the beginning of 2009 Zimbabwe adopted other countries' currencies to solve a number of chronic macroeconomic problems. Examine the benefits and challenges of that policy move of government. [25]

Question 6

- a) Briefly explain what is meant by the following terms:
- i) Fixed exchange rate regime [3]
 - ii) Floating exchange rate regime [3]
 - iii) Exchange rate appreciation [3]
- b) Explain the link between foreign exchange rates and the Balance of Payments (BOPs) of a country? [5]
- c) Distinguish between depreciation and devaluation. [5]
- d) Examine the importance of a stable currency to economic growth and development. [6]

END OF EXAMINATION