

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF THE BUILT ENVIRONMENT
DEPARTMENT OF QUANTITY SURVEYING
PART I SECOND SEMESTER EXAMINATION MAY 2013
PRINCIPLES OF MACRO ECONOMICS AQS 1204

TIME: 3 HOURS

TOTAL MARKS: 100

INSTRUCTIONS TO CANDIDATES

- Answer any **FOUR (4)** questions.
- Start the answer to each full question on a fresh page of the answer sheet
- 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 whole questions carry equal marks [25 marks] and part marks are indicated in brackets at the end of each part question.

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

This paper consists of 4 printed pages

QUESTION 1

- a) Study the data below for an imaginary country, Zululand and attempt the questions that follow:

Value of physical increase in stock and work in progress	\$400million
Imports of goods and services	\$37 000million
General government final consumption	\$27 000million
Gross domestic fixed capital formation	\$23 000million
Exports of goods and services	\$35 000million
Depreciation	\$14 000million
Taxes on expenditure	\$17 000million
Net property income from abroad	\$1 000million
Consumer expenditure	\$74 000million
Subsidies	\$3 000million

- i. Total Domestic Expenditure at market price [3 marks]
 - ii. Calculate the Gross Domestic Expenditure at factor cost [3 marks]
 - iii. Gross National Expenditure [3 marks]
 - iv. Net National Expenditure [3 marks]
- b) The following data show the national income figures, price indices and population for a hypothetical country in 2001 and 2002

	2001	2002
National income	\$5 000 000 000	\$7 000 000 000
Price index (2001 = 100)	120	160
Population	10 000 000	11 000 000

- i. Calculate real national income in both years [4 marks]
- ii. Find the real national income per capita in both years [4 marks]
- iii. What other data would be useful in determining the change in standards of living for citizens in a country? [5 marks]

QUESTION 2

- a) Define the following terms which relate to national income determination:
- i. Injections [3 marks]
 - ii. Withdrawals [3 marks]
 - iii. accelerator [3 marks]
- b) Given the following information: change in income \$1 000, change in consumption \$780. Compute:
- i. the Marginal Propensity to Save [3 marks]
 - ii. the multiplier [3 marks]
- c) What are the practical challenges associated with the multiplier? [10 marks]

QUESTION 3

- a) Consider two countries A and B which produce and consume two goods, X and Y. Assume that both countries face constant opportunity costs and operate under perfect conditions. Suppose that when both countries use all their resources efficiently to produce X, the resulting outputs are:

Country A: 2 000 units

Country B: 2 000 units

When they use all their resources to produce Y, the resulting outputs are:

Country A: 1 200 units

Country B: 400 units

- i. Draw the countries' production possibility frontiers. [6 marks]
 - ii. Determine which country has a comparative advantage in X and which country has a comparative advantage in Y. [8 marks]
- b) Study the following table and answer the questions which follow:

	2005	2006
Exports index	114	172
Imports index	105	187

- i) Compute the Terms of Trade for 2005 and 2006. [6 marks]
- ii) On what basis has the Terms of Trade been criticized? [5 marks]

QUESTION 4

- a) "Money can only be defined in terms of its functions". Discuss. [12 marks]
- b) Evaluate four methods available to a central bank to control the supply of money in a country. [13 marks]

QUESTION 5

Consider an economy with three policy targets: 2 percent unemployment, 4 percent inflation and balance of payments equilibrium. Analyse the policy instruments available to a government to achieve these targets. [25 marks]

QUESTION 6

- a) Explain what is meant by "natural unemployment"? What policies might be used to reduce this type of unemployment? [12 marks]
- b) Discuss the view that currency depreciation is inflationary and therefore ineffective as a means of correcting a balance of payments deficit. [13 marks]

END OF EXAMINATION