

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF INDUSTRIAL TECHNOLOGY

DEPARTMENT OF TECHNICAL TEACHER EDUCATION

BACHELOR OF EDUCATION HONOURS DEGREE IN ACCOUNTING

PRINCIPLES OF MACRO ECONOMICS

[CBA 1205]

GENERAL EXAMINATION

MAY 2011

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.
- Show all your workings
- Questions may be written in any order, but must be legibly numbered.

INFORMATION FOR CANDIDATES

- The paper contains **FIVE [5]** questions
- All questions carry equal marks [**25 marks**]

Turn over

QUESTION 1

- (a) Using relevant examples, describe the 3 approaches of calculating national income. [12 marks]
- (b) Discuss the challenges faced in the use of national income statics and how are these overcome? [13 marks]

TOTAL

[25 MARKS]

QUESTION 2

- (a) Study the following table and answer the questions which follow:

COUNTRY	WHEAT (IN TONNES)	FISH (IN TONNES)
South Africa	1	4
Zimbabwe	0,5	5

- (i) State which country has an absolute advantage in the production of both wheat and fish. [3 marks]
- (ii) Compute the opportunity cost ratios and present them in a well-labelled table. [4 marks]

- b) You are given the following items in the Balance of Payments (BOPs) schedule for Dorads Republic:

	\$Billions
Dorads visible exports	200
Net transfers	+80
Net factors income	15
Dorads invisible imports	115
Balancing item	8
Dorads visible imports	67

	E Billions
World Bank loan to Dorads	24
Contributions of Dorads to the African Development Bank	76
Dorads invisible exports	316

Calculate:

- | | |
|--|-------------------|
| i) The visible balance | [3 marks] |
| ii) The Balance on Current Account | [5 marks] |
| iii) The balance of Payments (BOPs) position | [6 marks] |
| iv) The balance of official financing | [2 marks] |
| TOTAL | [25 MARKS] |

QUESTION 3

- | | |
|---|-------------------|
| a) Describe the determination of exchange rate under the 3 major exchange rate regimes. | [15 marks] |
| b) How do commercial banks create money? | [10 marks] |
| TOTAL | [25 MARKS] |

QUESTION 4

Assume an open economy with government intervention:

Consumption	=	40 billion + 0,6Yd
Government Expenditure	=	200 billion
Investment	=	100 billion
Exports	=	250 billion
Imports	=	0,4Yd

$$\begin{aligned} \text{Taxation} &= 0,2Y_d \\ Y_d &= \text{Disposable income} \end{aligned}$$

Investment, Government and Exports are assumed to be constant at all levels of income.

- a) What is the equilibrium level of National Income [6 marks]
 - b) Compute the value of the multiplier [4 marks]
 - c) Discuss the factors which affect the size of the multiplier. [6 marks]
 - d) Show and briefly explain how marginal propensity to save and marginal propensity to consume are related? [3 marks]
 - e) State 3 examples of injection and 3 examples of withdrawals. [6 marks]
- TOTAL [25 MARKS]**

QUESTION 5

- a) What do you understand by the following terms as applied to national income accounting?
 - (i) Gross Domestic Product at factor cost [2 marks]
 - (ii) Gross National product at market prices [2 marks]
 - (iii) Net National Product at factor cost [2 marks]

b) From the data below, calculate Net National Product at factor cost:

	\$billion	
Imports	10 000	
Gross Domestic Pvt Investment	500	
Indirect Tax	1 000	
Government Expenditure	25 000	
Exports	6 000	
Value of Physical increase in stock	1 200	
Net Property Income from Abroad	400	
Consumer Expenditure	58 000	
Capital Consumption	800	[13 marks]

c) State six problems in using national income statistics in comparing standards of living among different countries. [6 marks]

TOTAL [25 MARKS]

QUESTION 6

a) "Savings are desirable at individual levels but at national level they can be detrimental to economic growth". Discuss this extract. [10 marks]

b) What are the causes of inflation? [6 marks]

c) "Trade between the developed countries and the developing countries is exploitative...". In light of the comparative advantage theory express your view about this statement. [9 marks]

TOTAL [25 MARKS]

END OF EXAMINATION