



“Investing in Africa’s future”

COLLEGE OF BUSINESS, PEACE, LEADERSHIP, AND GOVERNANCE

NMEC 102: ECONOMIC PRINCIPLES 2

END OF SECOND SEMESTER FINAL EXAMINATIONS

APRIL 2022

LECTURER: MR T MASESE

DURATION: 3 HOURS

INSTRUCTIONS

1. Answer ALL questions in Section A.
2. Candidates are also to select and answer any THREE questions from Section B.
3. Each question carries **25 marks**
4. DO NOT repeat material.
5. Marks will be awarded for clear, grammatically correct and well-constructed sentences

SECTION A (40 marks)

For Questions 1-12 write the correct option against each question for example (Q1. C)

1. Which *one* of the following represents the difference between GNP at market prices and
- A. GDP at market prices
 - B. The value of depreciation
 - C. The value of taxes and subsidies
 - D. Exports
 - E. Imports
 - F. Net property income from abroad

(1 mark)

2. The value of national output produced by residents of a country, whether located at home or overseas, after depreciation and excluding the influence of taxes and subsidies, is known as:
- A. GNP at market prices
 - B. GDP at market prices
 - C. GDP at factor cost
 - D. GNP at factor cost
 - E. NNP at factor cost.

(1 mark)

3. The marginal propensity to consume
- A. is negative
 - B. equals 1
 - C. is between 0 and 1
 - D. exceeds 1
 - E. can be any one of the above depending upon circumstances.

(1 mark)

4. Which *one* of the following most accurately represents the function where money is generally acceptable in ways that help us avoid a barter economy?
- A. Double-coincidence of wants
 - B. Unit of account
 - C. Medium of exchange
 - D. Store of value
 - E. Standard of deferred payment

(1 mark)

5. Other things equal, which of the following action will lead to a decrease in aggregate demand?
- A. An increase in taxes
 - B. A decrease in imports
 - C. An increase in the rate of government spending
 - D. A decrease in the interest rate

E. A decrease in the money supply

(1 mark)

6. Which *one* of the following is a component of the factor incomes approach to GDP?

- A. Government purchases
- B. Transfer payments
- C. Corporate profits
- D. Net exports
- E. Value added

(1 mark)

7. The suggestion that holdings of money depend on providing for possible unexpected events is called

- A. precautionary demand for money
- B. quantity theory of money
- C. transactions demand for money
- D. money supply multiplier
- E. open market operations

(1 mark)

8. If the multiplier is 4.0 and, owing to a decrease in expected future profit, investment decreases by \$2.5 billion, the equilibrium national income:

- A. rises by less than \$10 billion
- B. falls by \$10 billion
- C. does not change
- D. falls by more than \$30 billion
- E. rises by \$10 billion.

(1 mark)

9. Which *two* of the following are consistent with the idea of automatic fiscal stabilizers?

- A. The fact that the tax of unleaded petrol is lower than that on leaded petrol.
- B. The fact that as people's incomes increase the amount that they pay in taxes also increases.
- C. The fact that people sent to prison do not receive benefits.
- D. The fact that government spending falls during 'boom' times as unemployment falls.

(2 marks)

10. Which *two* of the following are defined as sources of government revenue from indirect taxes?

- A. Petroleum revenue tax
- B. VAT
- C. Inheritance tax
- D. Capital gains tax
- E. Fuel duties

(1 mark)

11. Which *two* of the following are consistent with the idea of discretionary fiscal policy?

- A. The fact that the tax of unleaded petrol is lower than that on leaded petrol.
- B. The fact that as people's incomes increase the amount that they pay in taxes also increases.
- C. The fact that the government increases spending during a recession.
- D. The fact that congestion charges reduce traffic in city centers.
- E. The fact that government raises tax rates during a 'boom' period.

(2 marks)

12. A customer deposits £500 in a bank. According to the 'credit multiplier' theory, if all banks have a reserve ratio of 20% then the number of new deposits eventually created is:

- A. \$250
- B. \$1,600
- C. \$2,500
- D. \$1,500
- E. \$400

(1 mark)

13. If the Central Bank carries out an open market operation and sells government securities, it is likely that the interest rate:

- A. falls and the quantity of money decreases
- B. may rise or fall depending upon the state of the economy
- C. rises and the quantity of money increases
- D. falls and the quantity of money increases
- E. rises and the quantity of money decreases.

(1 mark)

14. State whether the following statements are True or False question

(5 marks)

- i. The Keynesian 'speculative demand for money' suggests that a fall in the rate of interest will cause investors to switch from holding assets such as bonds to holding cash, thereby increasing the demand for money.
- ii. Monetary policy can involve changes in the money supply and/or the rate of interest.
- iii. Regressive taxes occur when, as incomes rise, the proportion of total income paid in tax falls
- iv. Transfer payments do not contribute directly to the current flow of output and, therefore must be included that part of government current expenditure which is spent directly on goods and services.
- v. GDP is essentially an indicator of a nation's production. But production may be a poor indicator of society's well-being because production does not equal consumption.

15. Assume that the consumption schedule for a private open economy is such that consumption $C = 50 + 0.8Y$. Assume further that planned investment, government expenditure and net exports X are independent of the level of real GDP and constant at $I = 30$, $G = 50$ and $X = 10$. Calculate the equilibrium level of income or real GDP for this economy. What happens to equilibrium Y if I change to 10? What does this outcome reveal about the size of the multiplier? **(5 marks)**

SECTION B

Select any 3 Questions from this Section

Question 1

- a. Consider the macroeconomic data shown below for DRC's economy.

Exports of goods and services	277,539
Household final consumption expenditure	693,551
General government expenditure	229,892
Imports of goods and services	309,998
Final consumption expenditure of non-profit bodies	27,532
Total gross capital formation	181,380

Calculate the total domestic expenditure on goods and services at market prices, the gross domestic product at market prices and balance of trade **(5 marks)**

- b. Discuss why national income measures are inadequate when comparing the standard of living between developed and developing countries and when used as a measure of social well-being. **(7 marks)**
- c. Suppose that a certain country has an MPC of 0.9 and a real GDP of \$400 billion. If its investment spending decreases by \$4 billion, what will be its new level of real GDP? **(3 marks)**
- a. Discuss the main determinants of consumption and saving. With the aid of a Keynesian frame diagrams explain how changes in the following affect the position the consumption function.
- i. Household wealth
 - ii. Inflation expectations
 - iii. Interest rates

(10 marks)

Question 2

- a. Distinguish between discretionary fiscal and automatic fiscal policy. Discuss the tools used to carry out an expansionary fiscal policy **(8 marks)**
- b. In producing a packet of crisps costing 50c to the consumer Cairns Foods P/L will need to purchase potatoes from a farmer for 25c. The manufacturer sells the packet of crisps to the

wholesaler for 35c. The wholesaler then sell the crisps to the retailer for 40c after adding further value adding. Calculate the value added at each stage of production. How much will be included for calculating the GDP of this economy? **(3 marks)**

- c. GDP can be calculated in three different ways, which should all result in the same figure. Outline each of the 3 methods of measuring GDP explaining the components of each method **(6 marks)**
- d. What do you regard as the main functions of money? Assess the relative importance of these functions **(8 marks)**

Question 4

- a. From 2008 Zimbabwe dollars were no longer acceptable for transaction purposes and in February 2009, the Government yielded to this rejection by introducing the multicurrency system (dollarization). Why is universal acceptability such an important characteristic of money? What other characteristics of money do you think were important to Zimbabweans were no longer met by the Zimbabwe dollar. What are the main functions of money? **(10 marks)**
- b. Define money multiplier, required and excess reserves. Suppose that a bank's customer deposits \$4000 in her current account at MBCA. The required reserve ratio is 0.25. What are the required reserves on this deposit? What is the largest loan that the bank can make on the basis of the new deposit? If the bank chooses to hold reserves of \$3000 on this new deposit, what are the excess reserves on the new deposit? **(5 marks)**
- c. Unemployment is coming in many forms and from different causes. Discuss. **(10 marks)**

Question 5

- a. Briefly explain the main quantitative tools used by the Central bank to control the money supply. Besides controlling money supply what are the other important roles played by the Central Bank. Explain each of these roles **(8 marks)**
- b. With the aid of a circular flow diagram indicate the flow of goods and services and expenditures within a 4-sector economy. Clearly indicate the major players in the economy, expenditure components, injections and withdrawals **(8 marks)**
- c. Briefly explain the following concepts (i) moral suasion (ii) reserve ratio (iii) open market operations (iv) induced consumption (v) autonomous expenditure **(5 marks)**
- d. Linear equations for the consumption and saving schedules take the general form $C = a + bY$. and $S = -a + (1 - b)Y$, where C, S, and Y are consumption, saving, and national income, respectively. The constant a represents the vertical intercept, and b represents the slope of the consumption schedule. Use the following data to substitute numerical values for a and b in the consumption and saving equations. What is the economic meaning of b? Of (1 - b)?

National Consumption	National Consumption
Income (Y) (C)	Income (Y) (C)
\$ 0	\$ 80

100	140
200	200
300	260
400	320

(4 marks)

END OF PAPER