



COLLEGE OF BUSINESS PEACE LEADERSHIP AND GOVERNANCE

COURSE TITLE: NMEC 102 ECONOMICS PRINCIPLES 2
SEMESTER 1: FINAL EXAMINATION- NOVEMBER 2021
LECTURER: MR T. MASESE
TIME: 3 HOURS

INSTRUCTIONS

Answer **ALL** Questions in this Paper

Total possible mark is **100**.

Start **each** question on a new page in your answer Booklet.

The marks allocated to **each** question are shown at the end of the section.

Clearly number your work and show all your workings.

Credit will be awarded for logical, systematic and neat presentations.

Question One

- a. Illustrate each of the following situations with IS/LM curves
 - i. An increase in G with money supply held constant by the Central Bank **(2 marks)**
 - ii. An increase in G with CB accommodation designed to hold interest rate constant **(2 marks)**
 - iii. The Minister of Finance cuts G and increases T while the CB Governor embarks on an open market purchase of bonds **(3 marks)**
 - iv. The Minister of Finance increases G and hold T constant while the Governor of CB holds M^s constant during a period of inflation **(2 marks)**
- b. The banks' ability to create money is controlled by the volume of reserves in the system, which is in turn controlled by the Central Bank. The Central bank has ultimate control over money supply. What are the main quantitative and qualitative instruments used to control money supply? Besides controlling money, discuss the other functions of a country's central bank. **(12 marks)**
- c. Suppose FBC bank has excess reserves of \$8000 and current account deposits of \$150000. If the reserve ratio is 20% what is the size of the bank's actual reserves **(2 marks)**
- d. What are the government's fiscal policy options for ending severe demand-pull inflation? What are the 5 major administrative constraints of fiscal policy **(7 marks)**

Question Two

- a. Briefly explain the following concepts:
 - i. Crowding out-effect (explain and also illustrate graphically) **(4 marks)**
 - ii. Fiscal drag **(2 marks)**
 - iii. Policy mix **(2 marks)**
- b. Suppose the consumption function for Swaziland is $C = 10 + 0.9Y$ and also that $Y = \$400m$. Determine the marginal propensity to consume, marginal propensity to save, the level of consumption, the average propensity to consume, the level of saving and the average propensity to save. **(6 marks)**

- c. Given the following information (in millions of dollars) for Angola, calculate gross domestic product (GDP- Hint: Use expenditures approach), gross national product (GNP), net national product, national income, personal income and disposable income **(10 marks)**

Government Expenditure (G)	\$2100
Payment of factor payments from the rest of the world	\$167.1
Net Exports (NX)	\$1600
Factor Payments to the rest of the World	\$178.6
Depreciation	\$715.3
Consumption Expenditure (C)	\$1300
Indirect Taxes minus Subsidies	\$553.1
Corporate Profits minus Dividends	\$348.4
Investment (I)	\$1738.4
Social Insurance Payments	\$626.0
Personal interest income from government and consumers	\$254.3
Transfer payments to persons	963.4
Personal Taxes	742.1

- d. Briefly outline the main determinants of money demand explaining the main motives for holding money **(6 marks)**
- e. A business cycle has some distinct phases which show swings in economic activity. With the aid of clearly labeled diagram explain each phase of a business cycle explaining what happens to income, prices, employment and output at each phase **(6 marks)**

Question Three

- a. What are the basic determinants of investment? Explain the relationship between the level of investment and real interest rates. Why is the investment schedule less stable than the consumption and saving schedules? **(6 marks)**
- b. You are given the following table for Malawi and you are also told that $C = 80 + 0.75Y$

Level of Output and Income (GDP)	Consumption	Saving	APC	APS	MPS	MPC
\$240m	?	?	?	?	?	?
260	?	?	?	?	?	?

280	?	?	?	?	?	?
300	?	?	?	?	?	?
320	?	?	?	?	?	?
340	?	?	?	?	?	?
360	?	?	?	?	?	?
380	?	?	?	?	?	?
400	?	?	?	?	?	?

- i. Complete the above table **(10 marks)**
 - ii. Show the consumption and saving schedules graphically **(3 marks)**
 - iii. Find the breakeven level of income. Explain how it is possible for households to dissave at very low levels of income **(3 marks)**
- c. With the aid of a diagram explain how each of the following will affect the consumption and the saving schedule or the investment schedule ceteris paribus:
- i. A decline in real interest rates **(2 marks)**
 - ii. A sharp sustained decline in stock (equities) prices **(2 marks)**
 - iii. A large increase in the value of real estate including houses **(2 marks)**
 - iv. Threat of war, leading the public to expect future shortages of consumer goods **(2 marks)**
- d. Use the arrow notation ($\downarrow \rightarrow \uparrow$) to summarize the effects of an open market purchase of bonds designed to increase bank reserves (expansionary monetary policy) **(4 marks)**

END OF PAPER