



COLLEGE OF BUSINESS, PEACE, LEADERSHIP & GOVERNANCE

NMEC102 PRICIPLES OF ECONOMICS 2

END OF SECOND SEMESTER EXAMINATION

MAY 2021

LECTURER: TALKMORE GEZANA

INSTRUCTIONS

Answer **ONE** question.

The mark allocations are shown against each question.

Application of economic concepts shall be rewarded

Clearly number your work and show all your workings. Credit will be awarded for logical, systematic and neat work.

Plagiarism and duplication of other student's work shall be penalised

Question One

The COVID-19 pandemic has caused some governments to bail-out their economies and cushion their citizens by rolling out stimulus packages.

- i. Discuss the different stimulus packages that have been rolled out in your nation of choice. Discuss the effects of economic stimulus packages.

(20 marks)

- ii. In your opinion analyse the impact of rolling out stimulus economic packages?

(20 marks)

- b) You are given the following table for Namibia and you are told that $C = 80 + 0.75Y$

Level of Output and Income (GDP)	Consumption	Saving	APC	APS	MPS	MPC
\$240m	?	?	?	?	?	?
260	?	?	?	?	?	?
280	?	?	?	?	?	?
380	?	?	?	?	?	?
400	?	?	?	?	?	?

- i. Complete the above table

(30 marks)

- ii. Find the breakeven level of income. Explain how it is possible for households to dissave at very low levels of income

(3 marks)

- c) Suppose when aggregate output equals zero, consumption equals \$100bn, autonomous investment equals \$200bn, government purchases equal \$50bn and net exports equals \$50bn. suppose also MPC is 0.9.

- i. Construct a table showing the level of aggregate expenditure, net exports and savings for aggregate output levels of 0, 200bn, 400bn, 500bn, 700bn, 900bn, 1000bn

(12 marks)

- ii. Calculate the equilibrium level of income

(3 marks)

- iii. What would be the new level of real GDP if an unfavourable change in exchange rates caused net exports to change by 50bn

(3 marks)

- d) Suppose the money supply is currently \$500bn and the Central bank wishes to increase it by \$100bn.

- i. Given a required reserve of 0.25, what should it do?

(1 marks)

- ii. If it decided to change money supply by changing the required reserve ratio, what change should it make?

(1 marks)

- e) The consumption function for Zimbabwe's economy has been provided as $C = 10 + 0.9Y$ and $Y = \$400m$.

- i. Determine the marginal propensity to consume,

(1 marks)

- ii. Determine marginal propensity to save,

(1 marks)

- iii. Determine the level of consumption,

(1 marks)

- iv. Determine the average propensity to consume,

(1 marks)

- v. Determine the level of saving

(1 marks)

- vi. Determine the average propensity to save.

(1 marks)

Question Two

- a) Suppose you have been recruited as a Fiscal Policy Consultant by your government. What are the best fiscal policy responses you would recommend in combating economic challenges presented by COVID-19 pandemic? **(40 marks)**
- b) Generally, governments including some of the well developed economies run fiscal deficits and rarely fiscal surpluses nor a balanced fiscal budget.
- Why would governments intentionally run fiscal deficits? Discuss? **(7 marks)**
 - Discuss the causes of fiscal deficits for Zimbabwe? **(5 marks)**
 - Discuss securities financed deficit vs the money financed deficit? **(8 marks)**
 - What would be the possible remedies of fiscal deficit? **(7 marks)**
 - Differentiate a national deficit from a national debt? **(5 marks)**
- c) The Democratic Republic of Congo Finance Minister presented to the Cabinet a draft budget revealing that when aggregate output equals zero, consumption equals \$462bn, autonomous investment equals \$786bn, government purchases equal \$247bn and net exports equals \$243bn and Marginal Propensity to Consume (MPC) is 0.7. You have been contracted as a macroeconomics Analyst:
- Construct a table showing the level of aggregate expenditure, net exports and savings for aggregate output levels of 0, 100bn, 350bn, 450bn, 515bn, 650bn, 862bn, 955bn, 1,2tn **(20 marks)**
 - Calculate the equilibrium level of income **(4 marks)**
 - What would be the new level of real GDP if an unfavourable change in exchange rates caused net exports to change by 153bn **(4 marks)**

Question Three

Generally, governments including some of the well developed economies run fiscal deficits and rarely fiscal surpluses nor a balanced fiscal budget.

- With the aid of examples from a country of your choice, discuss why the government may run fiscal deficits. **(25marks)**
 - Compare a securities financed deficit with a money financed deficit and recommend your preferred choice of financing a deficit. **(15 marks)**
- a) From last year economic year it was established that the Namibia economy had Government Expenditure (G) of \$250m, Investment (I) of \$150m, Consumption (C) of $100m + 0.9Y_d$, Taxes (T) of $40m + 0.15Y$, Exports (X) of 100m, Imports (M) of 70m.
- Calculate the aggregate expenditure function **(8 marks)**
 - Calculate the equilibrium income, **(4 marks)**
 - Calculate the level of consumption, **(4 marks)**
 - Calculate saving at this level of income **(4 marks)**
 - Calculate taxation at this level of income **(4 marks)**
 - Calculate the government expenditure multiplier, **(4 marks)**
 - Calculate the tax multiplier, **(4 marks)**
 - Calculate balance of trade **(4 marks)**
 - Calculate budget surplus **(4 marks)**
- b) Suppose the Namibian Finance Minister proposes to increase level of employment in the economy by raising incomes to \$2600m
- By how much should government expand its expenditure to achieve this, if taxes are to remain constant? **(5 marks)**

- ii. By how much does the government have to cut taxes have to cut taxes to achieve the same goal if government expenditure does not have to change? **(5 marks)**
- iii. Suppose the Minister decides to increase expenditure by \$100m and fund this expenditure by raising additional taxes of \$100m. What is the effect of this move on equilibrium income? **(10 marks)**

END OF EXAMINATION
