



"Investing in Africa's Future"

COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES

ECO1201 MACROECONOMIC PRINCIPLES

SECOND SEMESTER EXAMINATIONS

APRIL 2026

LECTURER: DR T MASESE

TIME: 3 HOURS

INSTRUCTIONS

ANSWER ANY **FOUR QUESTIONS** FROM THIS PAPER

MARKS ALLOTTED TO EACH QUESTION ARE SHOWN

CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR
PRESENTATION

Question 1

- (a) Define macroeconomics and explain how it differs from microeconomics **(5 marks)**
 - (b) Discuss the main macroeconomic objectives pursued by governments, with reference to developing economies **(6 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? **(4 marks)**
 - (d) Assume the following for the economy of Zambia:
 - Consumption function: $C = 50 + 0.85Y_d$
 - Investment: $I = 80$
 - Government spending: $G = 50$
 - Disposable income: $Y_d = Y - T$
 - Net taxes: $T = -10 + 0.1Y$
 - Equilibrium: $Y = C + I + G$
- i. Solve for equilibrium income **(4 marks)**
 - ii. What is the level of taxation and budget surplus/deficit when the economy is in equilibrium? **(4 marks)**
 - iii. What happens to the economy when the marginal propensity to save increases to 0.2? **(2 marks)**

Question 2

- (a) Explain the circular flow of income in a simple economy **(3 marks)**
- (b) Describe the three approaches used to measure Gross Domestic Product (GDP) **(6 marks)**
- (c) Discuss any 2 limitations of GDP as a measure of economic welfare **(4 marks)**
- (d) An economy has a potential output of 1,200 units and a current actual output of 1,080 units. The marginal propensity to consume (MPC) is 0.8.

Required:

- i. Calculate the output gap **(3 marks)**
- ii. Determine the government expenditure increase required to close the gap, assuming fiscal policy operates through government spending only **(4 marks)**
- iii. Explain how expansionary fiscal policy may affect unemployment in the short run **(3 marks)**
- iv. State one possible drawback of using fiscal policy to address unemployment **(2 marks)**

Question 3

- (a) Define inflation and explain how it is measured **(5 marks)**
- (b) Discuss the causes and economic effects of inflation **(10 marks)**
- (c) Outline the main types of unemployment and briefly discuss the causes of each type **(10 marks)**

Question 4

- (a) Identify and explain the components of aggregate demand **(8 marks)**
- (b) Discuss the main macroeconomic objectives pursued by governments, with reference to developing economies **(7 marks)**
- (c) In a simple economy, suppose that all income is either compensation of employees or profits. Suppose also that there are no indirect taxes.

Consumption	\$9,500
Investment	3,000
Depreciation	1,750
Profits	2,400
Exports	850
Compensation of employees	11,500
Government purchases	3,200
Direct taxes	1,200
Saving	1,600
Imports	900

Using the above data, calculate gross domestic product from the expenditure approach and the income approach **(10 marks)**

Question 5

- (a) The relationship between consumption and income is called a consumption function. Explain the Keynesian consumption function and the permanent income hypothesis of consumption **(7 marks)**
- (b) Discuss the main determinants of investment and the role of interest rates in investment decisions **(5 marks)**
- (c) The following questions refer to this table:

Aggregate Output/ Income (Y)	Consumption (C)	Planned Investment (I)	Saving	Unplanned Investment (Inventory Change)
1000	1500	250	?	?
1500	1875	250	?	?
2000	2250	250	?	?
2500	2625	250	?	?
3000	3000	250	?	?
3500	3375	250	?	?

4000	3750	250	?	?
4500	4125	250	?	?

- i. At each level of output, calculate saving and unplanned investment (inventory change) **(5 marks)**
- ii. Calculate the equilibrium level of output **(2 marks)**
- iii. Calculate the marginal propensity to consume, the marginal propensity to save and the multiplier **(6 marks)**

Question 6

- (a) Explain the characteristics and functions of money in an economy **(8 marks)**
- (b) Discuss the objectives and tools of monetary policy used by central banks **(8 marks)**
- (c) You are given this account for a bank:

Assets		Liabilities	
Reserves	1200	Deposits	8000
Loans	6800		

If the required reserve ratio is 10 percent.

- i. How much is the bank required to hold as reserves given its deposits of \$8,000? **(2 marks)**
- ii. How much are its excess reserves? **(2 marks)**
- iii. By how much can the bank increase its loans? **(2 marks)**
- iv. Suppose a depositor comes to the bank and withdraws \$500 in cash. Show the bank's new balance sheet, assuming the bank obtains the cash by drawing down its reserves and indicate if the bank now holds excess reserves and is meeting the required reserve ratio? **(3 marks)**

END OF EXAMINATION