



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS, AND ACCOUNTING

DEPARTMENT OF BUSINESS ADMINISTRATION AND MANAGEMENT

EXAMINATION PAPER

COURSE CODE : CEC121
COURSE TITLE : PRINCIPLES OF MACROECONOMICS
DURATION : 3 Hours
LEVEL : 1.2
DATE : 15 FEB 2022

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Use of silent, non-programmable calculators is allowed
3. Answer **ALL** questions in Section A and **THREE (3)** questions in Section B.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets []
6. Show all workings, where applicable.
7. Formulae sheet to be provided.

3. Which of the following would most likely lead to a decrease in aggregate demand?
- A. A decrease in taxes
 - B. A decrease in interest rates
 - A. An increase in household savings
 - D. An increase in household consumption
 - E. An increase in business firms' purchases of capital equipment from retained earnings
4. Which of the following is not a function of money?
- A. Hedge against inflation
 - B. Medium of exchange
 - C. Unit of account
 - D. Store of value
5. Which of the following will decrease gross domestic product by the greatest amount?
- (A) \$20 billion increases in both government spending and taxes
 - (B) \$20 billion decreases in both government spending and taxes
 - (C) A \$20 billion increase in taxes
 - (D) A \$20 billion decrease in government spending
 - (E) A \$20 billion increase in net exports
6. The initial impact of an increase in government spending is to shift
- A. Aggregate demand to the right.
 - B. Aggregate demand to the left.
 - C. Aggregate supply to the right.
 - D. Aggregate supply to the left.
7. Demand -side unemployment is partly caused by:
- A. Imperfections in the labor market
 - B. Occupational and geographic immobility of factors
 - C. Demographic changes
 - D. Lack of aggregate demand
8. Stagflation occurs when the economy experiences

- A. Rising prices and rising output
- B. Rising prices and falling output.
- C. Falling prices and falling output
- D. Falling prices and rising output.

9. Which of the following would NOT cause a SHIFT in Aggregate Supply?

- A. The level of government spending
- B. The costs of the factors of production
- C. Incentives
- D. The structure of the economy

10. Which of the following is NOT true of the Federal Reserve?

- (A) It serves as a lender of last resort for member banks.
- (B) It supervises member banks.
- (C) It provides check-clearing services.
- (D) It issues debit cards.
- (E) It controls the money supply

SECTION B [TOTAL: 75Marks]

QUESTION ONE

a) Fill in the missing figures in the table below using 2019 as the base year [12Marks]

Year	Units of output	Unit Price \$	GDP Price index	Inflation rate	Nominal GDP	Real GDP
2018	400	150				
2019	450	320				
2020	560	180				

b) Gross Domestic Product (GDP) is an adequate measure of the economic performance of a country. Discuss [13Marks]

QUESTION TWO

An open economy with a government sector is in equilibrium. Assume the following:

- Marginal propensity to save = 0.4
- Marginal propensity to tax = 0.2
- Marginal propensity to import = 0.2

Showing your method of working, calculate:

- The value of the multiplier **[5Marks]**
- By how much the equilibrium level of national income would fall, if Investment in the economy is reduced by \$60m. **[5Marks]**
- Government expenditure represents one of the injections of expenditure. Explain with the aid of a diagram how an increase in government spending may have a multiplier effect on the economy. **[9Marks]**
- Clearly distinguish between nominal GDP and real GDP. Why does this distinction matter? **[6Marks]**

QUESTION THREE

Zimbabwe's economy depends heavily on its mining and agricultural sectors. Following a decade of contraction from 1998 to 2008, the economy recorded real growth (GDP) of more than 10% per year in the period 2010-2013 before falling below 3% in the period 2014-2017, due to; poor harvest, low diamond revenue and decreased investment among other factors.

- Explain the importance of recording economic statistics for an economy like Zimbabwe **[10Marks]**
- Explain five macroeconomic objectives that the government of Zimbabwe wishes to achieve **[15Marks]**

QUESTION FOUR

A newspaper article dated 26 February 2019 reported that the Chief of RBZ, Doctor John Mangudya had plans to re-introduce a lender of last resort facility. This facility helps institutions that are experiencing financial difficulty or are considered highly risky or near collapse.

- With aid of examples examine the functions of a central bank in a country. **[15 Marks]**
- Briefly explain the motives of holding money **[10 Marks]**

END