



**ZIMBABWE EZEKIEL GUTI UNIVERSITY**

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**FACULTY OF BUSINESS, ECONOMICS, AND ACCOUNTING**

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**DEPARTMENT OF BUSINESS ADMINISTRATION AND MANAGEMENT**

**EXAMINATION PAPER**

**COURSE CODE** : CEC121  
**COURSE TITLE** : Principles of Macroeconomics  
**DURATION** : 3 Hours  
**LEVEL** : 1.2  
**DATE** : 01 DEC 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 Any **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.

**SECTION A [Total: 25 marks]**

**Answer all questions in this Section.**

***Indicate whether the sentence or statement is true or false*** [Total: 5 marks]

1. Inflation is persistent increase in price
2. In a closed economy, investment is always equal to saving regardless of where the saving came from - public or private sources.
3. The "base year" in a price index is the benchmark year against which other years are compared.
4. The short-run effect of an increase in aggregate demand is an increase in output and an increase in the price level
5. Nominal GDP employs current prices to value output while real GDP employs constant base-year prices to value output.

***Select the appropriate answer Multiple Choice Questions*** [Total: 20 Marks]

1. 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
2. What is an example of an expenditure-dampening policy?
  - A. An increase in income tax rates
  - B. An increase in the level of import tariffs
  - C. An upward revaluation of the exchange rate
  - D. The introduction of import quotas

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
4. Which of the following would not cause a shift in the long-run aggregate supply curve?
- A. All of these answers shift the long-run aggregate supply curve.
  - B. An increase in the available capital
  - C. An increase in the available labor
  - D. An increase in the available technology
  - E. An increase in price expectations
5. Gabriel lost his computer programming job when it was outsourced to a company abroad. After looking unsuccessfully for several months for another job, he gave up and is currently attending school. Currently, Gabriel is classified as;
- A. Structurally unemployed
  - B. Frictionally unemployed
  - C. Cyclically unemployed
  - D. Underemployed
  - E. Not in the labor force
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. 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
9. If interest rates are reduced, what is most likely to decrease?
- A. Borrowing by firms
  - B. Consumer spending
  - C. Import prices
  - D. Short-term capital inflows
10. A government reduced the tax on company profits from 28% to 20%. Which statement best describes this policy?
- A. It is both a contractionary fiscal policy and a supply-side policy.
  - B. B It is both an expansionary fiscal policy and a supply-side policy.
  - C. C It is both an expansionary fiscal policy and an expansionary monetary policy.
  - D. D It is both an expansionary monetary policy and a supply-side policy.

**SECTION B [TOTAL: 75Marks]**

**QUESTION ONE**

- a) What are the goals of monetary policy? **[5marks]**
- b) Discuss the various tools of monetary policy. To what extent have these tools been effective in Zimbabwe? **[20marks]**

**QUESTION TWO**

- a) Use the information below to calculate GDP **[5Marks]**
- Consumer spending = \$200 million, Investment spending = \$55 million, State and local government spending = \$120 million, Federal government spending = \$80 million, Imports = \$50 million, Exports = \$45 million, Income taxes = \$100 million
- b) "Saving is a leakage from, and investment is an injection into the circular flow of income." State:
- i. two further examples of a leakage
  - ii. two further examples of an injection **[4Marks]**
- c) With the aid of diagrams, demonstrate how government intervention would remove inflationary and recessionary gaps in the AD-AS model. (State their assumptions about the economy). **[16Marks]**

**QUESTION THREE**

- a) Explain the usefulness of national income statistics and discuss the problems experienced in using these statistics. **[12marks]**
- b. Unemployment is regarded as a serious problem facing Zimbabwe (World Bank, 2021).
- i. What are the causes of unemployment in Zimbabwe? **[5Marks]**
  - ii. Explain how unemployment problem in Zimbabwe can be solved **[8Marks]**

#### QUESTION FOUR

Assume 2 countries Zimbabwe and Botswana producing wheat and cloth.

	ZIMBABWE	BOTSWANA
<b>CLOTH (hrs/unit)</b>	4	1
<b>WHEAT (hrs/unit)</b>	2	3

#### Required

- a) Which country has an absolute advantage in producing wheat [2Marks]
- b) Which country has an absolute advantage in producing cloth [2Marks]
- c) Which country has a comparative advantage in cloth [6Marks]
- d) Discuss reasons for protectionist policies in developing countries [15Marks]

END

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