



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

DEPARTMENT OF ECONOMICS, MARKETING AND ENTREPRENEURSHIP

EXAMINATION PAPER

MODULE CODE : CEC 121
MODULE TITLE : PRINCIPLES OF MACROECONOMICS
DURATION : 3 Hours
LEVEL : 1.2
DATE : 11 JUN 2025

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 (Compulsory) and any other **THREE** Section B.
4. Begin each question on a new page in section B.
5. The number of marks for each question or part question is shown in brackets []

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

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. Which of the following activities is not included in the calculation of the national income of a country?
- A. A maid working for a family on a full-time basis
 - B. A lawyer conducting their law practice
 - C. A housewife performing housework chores
 - D. A dispensary rendering medical services
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

Assume 2 countries Angola and Gambia producing Clothes and Jewellery.

	Angola	Gambia
Clothes (hrs/unit)	12	4
Jewellery (hrs/unit)	4	16

Required

- a) Which country has an absolute advantage in producing clothes **[2Marks]**
- b) Which country has an absolute advantage in producing jewellery **[2Marks]**
- c) Which country has a comparative advantage in clothes **[6Marks]**
- d) Briefly explain the effects of the depreciation of the exchange rate on the Zimbabwean economy. **[6Marks]**
- e) Evaluate the arguments for and against free trade in a developing country like Zimbabwe. **[9Marks]**

QUESTION TWO

- a) Use the information below to calculate GDP **[5Marks]**
Consumer spending = \$500 million, Investment spending = \$65 million, State and local government spending = \$120 million, Federal government spending = \$80 million, Imports = \$50 million, Exports = \$45 million, Income taxes = \$110 million.
- b) Identify and explain any two monetary policy instruments at the disposal of the central bank of Zimbabwe **[5Marks]**
- c) Discuss the various tools of monetary policy. To what extent have these tools been effective in Zimbabwe? **[15Marks]**

QUESTION THREE

- a) Explain the likely internal and external effects of a fall in the values of your country's currency. **[10Marks]**
- b) Evaluate the usefulness of national income statistics and discuss the problems experienced in using these statistics. **[15marks]**

QUESTION FOUR

- a) Clearly explain how high and unstable inflation distorts each of the functions of money in an economy. **[10marks]**
- b) Explain the major causes of inflation in Zimbabwe **[7Marks]**
- c) Examine policy measures authorities could make to reduce inflationary pressures. **[8Marks]**

END