



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

**FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE**

QUALIFICATION: BACHELOR OF ECONOMICS	
QUALIFICATION CODE: 07BECO	LEVEL: 7
COURSE CODE: PMA512S	COURSE NAME: PRINCIPLES OF MACROECONOMICS
SESSION: JANUARY 2020	PAPER: THEORY
DURATION: 2 HOURS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER	
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MODERATOR:	Mr. Eden Shipanga

INSTRUCTIONS
1. This question paper is made up of Five (5) sections. 2. Answer Section A and B on the attached answer sheet 3. Write each question on a separate page in your answer booklet 4. Write neatly and legibly

THIS QUESTION PAPER CONSISTS OF 15 PAGES (Including this front page)

SECTION A

20 Marks

Instructions:

- Read all questions carefully
- Answer all questions
- All answers should be on the answer sheet provided on page.14. Tear the page off and place it inside your examination script.

QUESTION 1 [20 marks]

1.1 The annual charge which estimates the amount of capital equipment used up in each year's production is called ...

- a) Indirect business taxes.
- b) Inventory reduction.
- c) Depreciation.
- d) Investment.

1.2 Autonomous consumption:

- a) varies with income
- b) is independent of the prices in the market
- c) does not vary with income levels
- d) Is not equal to autonomous dissaving.

1.3 If your father buy a newly built retirement home, this transaction would affect

- a) Investment spending
- b) Net exports
- c) Government spending
- d) Consumption spending

1.4 A financial intermediary is a middleperson between ...

- a) Buyers and sellers.
- b) Husbands and wives.
- c) Borrowers and lenders.
- d) Labour unions and firms.

1.5 Stagflation is when?

- a) prices and wages rise because of a slowdown in the economy
- b) where there is both rising inflation and unemployment
- c) where inflation rises inexplicably
- d) where unemployment rises because of oil price hikes

1.6 The labour force is the sum of the:

- a) working age population and the number of unemployed people
- b) number of employed people and the working-age population
- c) number of employed people and the number of unemployed people
- d) Total population and the number of unemployed people.

1.7 The quantity of money demanded for transactions and precautionary purposes is related to the:

- a) interest rate
- b) level of income in the economy
- c) inflation rate
- d) None of the above

1.8 The supply of money is determined by:

- a) the demand for money
- b) the supply curve
- c) the interest rates
- d) The monetary authority.

1.9 Macroeconomics is the branch of economics that attempts to

- a) Explain why certain firms are less efficient than others.
- b) Explain the price difference between two products.
- c) Study output, employment and inflation in the economy as a whole.
- d) explain changes in the prices of goods and services produced in an economy

1.10 To calculate real GDP, we measure the total value of output using:

- a) The prices that prevailed during a selected base year.
- b) Current prices, with base-year quantities.
- c) Estimated quantities, based on population growth.
- d) Estimated quantities, based on average family size.

1.11 Which of the following will not cause aggregate demand to increase?

- a) An increase in investment.
- b) An increase in taxes.
- c) An increase in consumer spending.
- d) A decrease in imports.

1.12 The basic (two-sector) circular flow diagram indicates that:

- a) Households sell goods and services to the government.
- b) Firms buy goods and services from households.
- c) Firms buy factors of production from the government.
- d) Households sell factors of production to firms.

1.13 If the banks in an economy operate with a reserve ratio of 20 per cent then the money multiplier is:

- a) 4
- b) 20
- c) 25
- d) 5

1.14 The amount of unemployment that the economy normally experiences is known as:

- a) The natural rate of unemployment.
- b) Cyclical unemployment.
- c) Efficiency wage unemployment.
- d) Namibian unemployment

1.15 All final goods and services that make the Gross Domestic Product (GDP) can be Expressed as

- a) $GDP = C + I - G + (X + M)$
- b) $GDP = C + I + G + (X - M)$
- c) $GDP = C + I + G (X + M)$
- d) $GDP = C + I + (X - M)$

1.16 The ratio of the change in the equilibrium level of income to a change in some Autonomous increase in spending is the

- a) Elasticity coefficient
- b) Multiplier
- c) Automatic stabilizer
- d) Marginal propensity of the autonomous variable

1.17 If the interest rates falls, then

- a) Bond prices will remain the same
- b) Bond prices will rise
- c) Bond prices will fall
- d) None of the above

1.18 If Namibia is experiencing an inflationary gap, equilibrium level of income would be:

- e) Greater than planned investment.
- a) Greater than the full employment income level.
- b) Less than the full employment income level.
- c) Equal to the full employment income level.

1.19 Indirect tax such as Value-added tax (VAT) can be classified as:

- a) progressive taxes
- b) proportional taxes
- c) regressive taxes
- d) Per capita taxes.

1.20 Which of the following statements is true about a country with a trade deficit?

- a) Net exports are negative.
- b) Net capital outflow must be positive.
- c) Exports exceed imports.
- d) Net exports are positive

SECTION B

20 Marks

Instructions:

- Read all questions carefully
- Answer all questions
- All answers should be on the answer sheet provided on page .15. Tear the page off and place it inside your examination script.

QUESTION 1 [20 marks]

- 1.1 GDP is defined as the market value of all goods and services produced in South Africa. [T/F]
- 1.2 All countries keep record of transactions with the rest of the world in the Balance of Payment (BoP.) [T/F]
- 1.3 Gross capital formation is also known as investment expenditure. [T/F]
- 1.4 The following are functions of money; Medium of exchange, Unit of account and shop of value. [T/F]
- 1.5 The value of the multiplier with an initial deposit of 1500 and a reserve requirement of 15% is equal to 10000. [T/F]
- 1.6 One of the objectives of taxation is to finance government expenditure. [T/F]
- 1.7 Fiscal policy is an instrument used by government to correct market failure through reducing the reserve requirement and increasing interest rate. [T/F]
- 1.8 According to David Ricardo's theory of comparative advantage, each country will specialize and trade in the product for which it has the lowest opportunity cost. [T/F]
- 1.9 If a country's currency appreciates, net exports will decrease. [T/F]
- 1.10 Suppose $C_a = 100$ and $c = 0.8$, if income is N\$ 400, consumption is equal N\$ 420. [T/F]
- 1.11 Labor force includes Unemployed persons, Full time employed and retired pensioners. [T/F]
- 1.12 When Job quits his job in Khorixas and moves to Ongha in search of a new job he is considered to be frictionally unemployed. [T/F]

- 1.13** Demand-pull inflation occurs when there is an increase in production costs resulting in a decrease in supply. [T/F]
- 1.14** Changes in resource supply such as energy prices, technology and wages may cause expansions or contractions. [T/F]
- 1.15** If a country's currency appreciates, its imports will become cheaper and export will decrease. [T/F]
- 1.16** Economic development is concerned with human development as well as with the production of goods and services. [T/F]
- 1.17** One of the basic reasons for international trade is that all countries do not possess the same natural resources. [T/F]
- 1.18** A tariff is a tax imposed on exported goods. [T/F]
- 1.19** If you are retired than you are considered part of the labour force. [T/F]
- 1.20** $MPC + MPS = 150$. [T/F]

SECTION C

20 Marks

QUESTION 1 [10 marks]

1.1 Explain how each of the following events is likely to affect GDP?

a) Environmental laws prohibit the firms from emitting pollution [1 mark]

b) Strikes by trade unions. [1 mark]

c) Discovery of new seed increases farm harvest. [1 mark]

d) Let us say Namibia only produces one good, for example maize. In 2017 the country produced 2000 tons of maize, which sold at N\$1500 per ton. In 2018, the country produced and 2200 tons of maize at a price of N\$1700 per ton.

i) Calculate the nominal GDP for this country for the years 2017 and 2018.

[4 marks]

ii) By what percentage did GDP increase in 2018?

[1 mark]

iii) Calculate the GDP in constant 2017 prices for 2018.

[2 marks]

QUESTION 2 [10 marks]

- 2.1** Explain three main motives of holding money outlined in Keynes' Liquidity Preference Theory [6 marks]
- 2.2** What would happen to the money supply in each of the following cases, ceteris paribus?
- a) The BON increases the required cash reserve ratio from 5% to 7%. [1 mark]
 - b) The Executive Committee of the BON raises the repo rate. [1 mark]
 - c) Suppose BON pursues an aggressive open market policy by selling government bonds. What will happen to the price of bonds and the interest rate? [2 marks]

SECTION D

20 Marks

QUESTION 1 [13 marks]

1.2 The government budget forms an integral part of fiscal policy.

- a) Define the term fiscal policy. [2 marks]
- b) Explain the difference between progressive and regressive taxes and give an example of each. [4 marks]
- c) List 3 functions of money in the economy. [3 marks]
- d) Define the “keep-the-money-at- home” argument [2 marks]
- e) If the government decides today that aggregate demand is deficient and causing a recession, what is it likely to do? [2 marks]

QUESTION 2 [7 marks]

2.1 You are given the following consumption function: $C = 130 + 0.55Y$

- (a) Refer to the consumption function above. If disposable income (Y) is given as N\$800, calculate the total amount of consumption. [2 marks]
- (b) Refer to the consumption function above. Calculate the income multiplier. [2 marks]
- (c) Refer to the consumption function above. If disposable income (Y) increases by N\$80, by how much will saving increase? [2 marks]
- (d) Refer to the consumption function above. What does the figure **130** indicate? [1 mark]

SECTION E

20 Marks

QUESTION 1 [10 Marks]

1.1 Inflation has various economic effects which may result in lower economic growth and higher unemployment than would otherwise have occurred. Discuss this statement by looking at the effects of inflation on the following groups of people in the economy:

- a) Creditors [2 marks]
- b) Debtors [2 marks]
- c) Salaried workers [2 marks]
- d) Pensioners [2 marks]
- e) Savers [2 marks]

QUESTION 2 [10 marks]

2.1 State any two shortcomings of GDP per capita as a measure of economic development.

[2 marks]

2.2 Consider each of the following cases separately. In each situation, identify the type of unemployment and briefly explain your reasoning.

a) The mechanisation of agriculture displaces thousands of farm workers who cannot find employment elsewhere in the economy. [2 marks]

b) Workers at Mazda Manufacturers are retrenched because car sales decreased during a slump in the economy. [2 marks]

c) Rebecca and two other teachers at a private school are retrenched when the number of children falls. [2 marks]

d) Farm workers in Vaalgras town help farmers to bring in their year-end harvest from November to March. [2 marks]

TOTAL MARKS FOR PAPER: 100

Student number:.....

ANSWER SHEET FOR SECTION A

Mark the correct answer with an X.

	A	B	C	D
1.1				
1.2				
1.3				
1.4				
1.5				
1.6				
1.7				
1.8				
1.9				
1.10				
1.11				
1.12				
1.13				
1.14				
1.15				
1.16				
1.17				
1.18				
1.19				
1.20				

Student number:.....

ANSWER SHEET FOR SECTION B

Mark the correct answer with an X.

	TRUE	FALSE
1.1		
1.2		
1.3		
1.4		
1.5		
1.6		
1.7		
1.8		
1.9		
1.10		
1.11		
1.12		
1.13		
1.14		
1.15		
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1.18		
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1.20		