



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

FACULTY OF MANAGEMENT SCIENCES

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION: BACHELOR OF ECONOMICS	
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COURSE CODE: PMA512S	COURSE NAME: PRINCIPLES OF MACROECONOMICS
SESSION: JANUARY 2019	PAPER: THEORY
DURATION: 2 HOURS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER	
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INSTRUCTIONS
<ol style="list-style-type: none">1. Answer ALL the questions.2. Write clearly and neatly.3. Number the answers clearly.4. This question paper is made up of four (4) sections.5. Answer Section A and B on the attached answer sheet.6. Answer ALL the questions and in blue or black ink.7. Start each question on a new page in your answer booklet.

THIS QUESTION PAPER CONSISTS OF 11 PAGES (Including this front page)

SECTION A
20 Marks

Instructions:

- Answer all the questions
- All answers should be on the answer sheet on page 10. Tear the page off and place it inside your examination script.

QUESTION 1

1.1 Macroeconomics can best be described as the

- (a) study of the large aggregates of the economy, or the economy as a whole.
- (b) study of how supply and demand determine prices in individual markets.
- (c) analysis of how firms try to maximise profits.
- (d) study of how a consumer tries to spend his income.

1.2 If you want to investigate the claim that more goods and services were produced in Namibia during 2005 than during 2004, you should look at the

- (a) nominal GDP.
- (b) real GDP.
- (c) potential GDP.
- (d) GDP per capita.

1.3 Gross domestic product is officially measured by adding together the:

- (a) quantity of each good and service produced by Namibian residents
- (b) quantity of goods and services produced by companies owned by Namibian citizens
- (c) market value of all final goods and services produced within the borders of a nation
- (d) none of the answers above are correct

1.4 Money is like an engine lubricant:

- (a) it needs to be changed twice a year
- (b) it is thick, black and gooey
- (c) too little money creates sticky inflation
- (d) too much money creates slippery inflation

1.5 The characteristic of divisibility means that money is better able to:

- (a) accurately match the precise value of the good
- (b) retain value from one exchange to the next
- (c) conduct barter transactions
- (d) be used for exchanges in different locations

1.6 Which of the following statements is true?

- (a) Disposable income is equal to personal income plus personal taxes.
- (b) The consumption of fixed capital reflects an estimate of how much capital is used up during production.
- (c) In most countries, approximately half of personal consumption expenditure is made up of consumption of fixed capital.
- (d) In a country with a growing economy and a growing population, the country's real GDP per capita grows faster than its real GDP.

1.7 Disposable income can be calculated by subtracting _____ from personal income:

- (a) personal income taxes
- (b) indirect business taxes
- (c) consumption of fixed capital
- (d) retained profits

1.8 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.

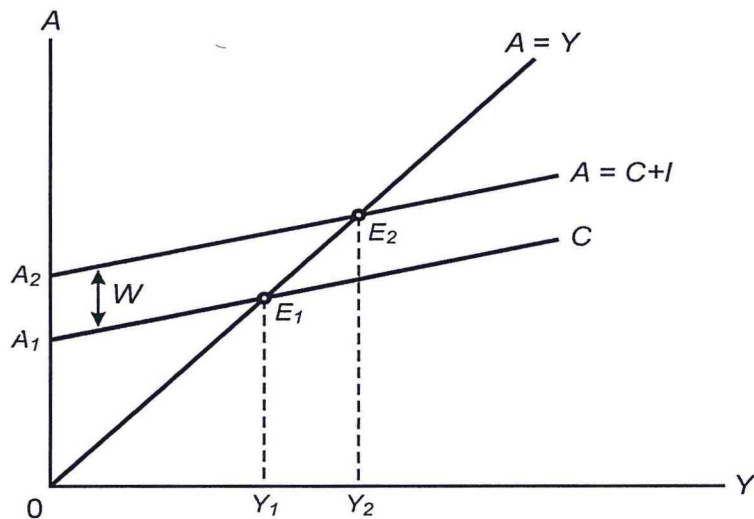
1.9 If the commercial banking system receives a deposit of N\$8 000 and the reserve requirement is 5 per cent, maximum deposit expansion for the commercial banking system is:

- (a) N\$200 000.
- (b) N\$205 000.
- (c) N\$160 000.
- (d) N\$ 40 000.

1.10 If the Bank of Namibia sells a significant amount of government securities in the open market, which of the following would occur?

- (a) The total amount of loans made by commercial banks will decrease.
- (b) The total amount of loans made by commercial banks will increase.
- (c) The money supply will increase.
- (d) The rate of interest will decrease.

Figure 1



Use figure 1 above to answer question 1.11 below.

1.11 The gap labelled W represents:

- (e) autonomous consumption
- (f) investment spending
- (g) induced consumption
- (h) none of the above.

1.12 Which one of the following can be regarded as part of investment spending in the simple Keynesian model?

- (a) savings of households
- (b) buying of bonds by a business
- (c) buying of NAMDEB shares on the stock exchange
- (d) building a new factory

Consider the following information:

- Marginal propensity to consume = 0,9
- Investment = N\$200 million
- Autonomous consumption = N\$70 million

1.13 Use the information provided above to determine the equilibrium level of income:

- (a) N\$300 million
- (b) N\$700 million
- (c) N\$2 000 million
- (d) N\$ 2 700 million

- 1.14 If a household's income falls from N\$20 000 to N\$17 000 and its consumption falls from N\$18 000 to N\$15 000, then its:**
- (a) marginal propensity to save is -0.67
 - (b) marginal propensity to consume is 0.88
 - (c) marginal propensity to consume is 0.20
 - (d) marginal propensity to save is zero (0).
- 1.15 Assuming a marginal propensity to consume of 0.8, calculate the total change in income in response to an increase in investment of N\$60 000:**
- (a) N\$60 000
 - (b) N\$300 000
 - (c) N\$240 000
 - (d) N\$48 000
- 1.16 Which of the following statements is true?**
- (a) Inflation refers to an increase in the general level of prices.
 - (b) Inflation refers to an expansion in the real GDP.
 - (c) During inflation, the purchasing power of money rises.
 - (d) The annual inflation rate for 2008 is equal to the price index for 2008 minus the price index for 2007.
- 1.17 Which of the following factors typically result in an increase in a country's gross domestic product (GDP) growth rate?**
- (a) An increase in the amount and productivity of resources used as inputs.
 - (b) An increase in the imports of consumer goods.
 - (c) An increase in the volatility of the business cycle.
 - (d) All of the above.
- 1.18 If Namibia were experiencing an inflationary gap, the equilibrium level of income would be**
- (a) greater than planned investment.
 - (b) greater than the full employment income level.
 - (c) less than the full employment income level.
 - (d) equal to the full employment income level.
- 1.19 Which of the following is not a phase of the business cycle?**
- (a) contraction.
 - (b) trough.
 - (c) equilibrium.
 - (d) expansion.
- 1.20 The term recession refers to**
- (a) a period (six or more months) of decline in output.
 - (b) the upward or downward phase of a single business cycle.
 - (c) a period (six or more months) of expansion in output.
 - (d) the point at which a business cycle reaches a peak.

SECTION B
20 Marks

Instructions:

- Answer all the questions
- All answers should be on the answer sheet on page 11. Tear the page out and place it inside your answer book.

QUESTION 1 [20 marks]

- 1.1 In the simple circular flow model firms are suppliers of both resources and products. [T/F]
- 1.2 Per capita GDP measures the income per person and is calculated as national income divided by the total labour force of the country. [T/F]
- 1.3 GDP is referred to as “real” when the effects of inflation are discounted from the nominal value of the GDP. [T/F]
- 1.4 The total volume of business sales in our economy is several times as large as the GDP because the GDP excludes intermediate transactions. [T/F]
- 1.5 The quantity theory of money suggests that an increase in the money supply would lead to an increase in the price level and therefore increases in the money supply are simply inflationary. [T/F]
- 1.6 For money to be generally accepted, it must exhibit at least four characteristics which are a medium of exchange, a store of value, free availability and encouraging of barter trade. [T/F]
- 1.7 The government should implement expansionary fiscal policy measures during a recession. [T/F]
- 1.8 Crowding-out occurs when the government issues debt, thus making it more difficult for the private sector to issue debt. [T/F]
- 1.9 Suppose that if your income is N\$10 000 your tax is N\$1 000, but if your income is N\$50 000 your tax is N\$4 000. Such a tax is progressive. [T/F]
- 1.10 If the Bank of Namibia sells a significant amount of government securities in the open market, the total amount of loans made by commercial banks will decrease. [T/F]
- 1.11 The “dirty” or managed float of currencies means that currencies are officially floating but are occasionally being directly influenced by central bank policies. [T/F]
- 1.12 The current account of the balance of payments shows all the movements of money in and out of the country for investment purposes. [T/F]
- 1.13 An ad valorem tariff is levied as a percentage of the value of the imported item. [T/F]

- 1.14 If the Namibian government obtains a loan from the International Monetary Fund, it will be recorded in the capital account of the balance of payments as an inflow of capital. [T/F]
- 1.15 If households' income changes from N\$14 200 to N\$16 200 and consumption spending changes from N\$12 000 to N\$13 100, then the MPC equals 0.55. [T/F]
- 1.16 In most countries, approximately half of personal consumption expenditure is made up of the consumption of fixed capital. [T/F]
- 1.17 One of the most important views expressed by classical economists was that supply creates its own demand. [T/F]
- 1.18 Inflation increases the purchasing power of your money, meaning that it buys you more today than last year. [T/F]
- 1.19 In economics, economic growth can best be described as a period of growth in the nominal GDP of a country. [T/F]
- 1.20 In the recovery phase of a business cycle, employment and output increase. [T/F]

SECTION C
40 Marks

QUESTION 1 [10 marks]

Table 1

	N\$ millions
Final consumption expenditure by households	385 280
Gross capital formation	105 858
Net factor payment	100 000
Depreciation	78 923
Final consumption expenditure by general government	120 139
Net operating surplus	169 191
Compensation of employees	309 064
Exports of goods and services	151 795
Other taxes on production	11 646
Taxes on products	58 185
Other subsidies on production	2 846
Subsidies on products	5 746
Imports of goods and services	143 340
Residual item	1 315

Using the figures provided in the above table, compute

- a) GDP by income method (5)
- b) Gross National Product (2)
- c) Net National Product (2)
- d) National Income (1)

QUESTION 2 [4 marks]

Table 2 below describes the process by which a loaf of bread is made available to a consumer as a final good. Use the table to answer questions 2.1 and 2.2 below.

Table 2: Value Addition to Bread

	Price (N\$) of a loaf of bread
Farmer sells wheat to miller	5,00
Miller sells flour to baker	6,00
Baker sells bread to grocer	10,00
Grocer sells bread to consumer	12,00

- 2.1 Derive the total value of bread. (2)
- 2.2 What is the value added by the grocer? (2)

QUESTION 3 [6 marks]

Fill in the missing values from table 3 above. (6)

Table 3: Economic Indicators

Year	GDP at current prices	GDP at constant 2017 prices	GDP deflator
2016	400 000	600 000	A
2017	500 000	B	C

QUESTION 4 [10 marks]

- 4.1 Define the term monetary policy. (1)
- 4.2 List three indirect policy instruments available to the Bank of Namibia and describe briefly how each could be used to increase or decrease the money supply. (9)

Policy instrument	Increase money supply	Decrease money supply
(a)		
(b)		
(c)		

QUESTION 5 [10]

Illustrate graphically and explain the difference between a deflationary and an inflationary gap and the fiscal measures that could be taken to rectify each specific situation.

SECTION D

20 Marks

QUESTION 1 [12 marks]

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)
- (b) Workers at Ford Motor Manufacturers are retrenched because car sales decreased during a slump in the economy. (2)
- (c) Anna and two other teachers at a private school are retrenched when the number of children falls. (2)
- (d) Farm workers in Ceres help farmers to bring in their year-end harvest from November to March. (2)
- (e) Giovanni quits his job in Windhoek and moves to Oshakati in search for a new job. (2)
- (f) The steel industry in South Africa suffers a slump – as import competition increases, unemployment rises. (2)

QUESTION 2 [8 marks]

In country X the working-age population is 14 million, full-time employment is 8 million, part time employment is 2 million and unemployment is 2 million. From the above information:

- 2.1 Define the term labour force and calculate the size of the labour force. (4)
- 2.2 Calculate the unemployment rate. (4)

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		
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1.14		
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1.18		
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