



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

FACULTY OF MANAGEMENT SCIENCES

DEPARTMENT OF ACCOUNTING ECONOMICS AND FINANCE

QUALIFICATION :	BACHELOR OF ECONOMICS HONOURS DEGREE		
QUALIFICATION CODE:	08HECO	LEVEL:	8
COURSE CODE:	AME820S	COURSE NAME:	ADVANCED MACROECONOMICS
SESSION:	Nov 2019	PAPER:	THEORY
DURATION:	3 HOURS	MARKS:	100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER (S)	Prof T. Sunde
MODERATOR:	Prof J.P.S. Sheefeni

INSTRUCTIONS
1. Answer ALL the questions. 2. Write clearly and neatly. 3. Number the answers clearly.

PERMISSIBLE MATERIALS

1. Ruler
2. Calculator

THIS QUESTION PAPER CONSISTS OF 3 PAGES

QUESTION 1 [25 MARKS]

Consider a macroeconomy that only produces two goods, A and B. The base year is 2015 and all quantities are measured in billions. Round all your answers to the nearest tenth.

Product	Quantity		Prices	
	2015	2016	2015	2016
A	100	105	\$20	\$20
B	50	52	\$100	\$105

- (a) Calculate the real GDP (Y) growth rate in 2016. **[10 marks]**
- (b) Calculate the inflation rate (π) in 2016 using the GDP deflator **[10 marks]**
- (c) The money supply (M) is \$1000 in 2016. What is the velocity of money? Now assume the Fed wishes to target a $\pi=2\%$ inflation rate in 2017. If the growth in real GDP is expected to be the same in 2017 as in 2016, what money supply growth rate is necessary? How much new money must the Fed inject into the economy? **[5 marks]**

QUESTION 2 [25 MARKS]

- (a) When real GDP declines during a recession, what happens to consumption, investment, and the unemployment rate? **[5 Marks]**
- (b) Give an example of a price that is sticky in the short run but flexible in the long run. **[5 Marks]**
- (c) Why does the aggregate demand curve slope downward? **[5 Marks]**
- (d) Explain the impact of an increase in the money supply in the short run and in the long run. **[5 Marks]**
- (e) Why is it easier for the Central bank to deal with demand shocks than with supply shocks? **[5 Marks]**

QUESTION 3 [25 MARKS]

- (a) In the Solow-Growth model how does the saving rate affect the steady state level of income? How does it affect the steady state rate of growth? [5 Marks]
- (b) Why might an economic policy maker choose the Golden Rule level of capital? [5 Marks]
- (c) Might a policy maker choose a steady state with more capital than in the Golden Rule steady state? With less capital than in the Golden Rule steady state? Explain your answers. [5 Marks]
- (d) In the Solow model, how does the rate of population growth affect the steady state level of income? How does it affect the steady state rate of growth? [10 Marks]

QUESTION 4 [25 MARKS]

- (a) What are the advantages of floating exchange rates and fixed exchange rates? [5 marks]
- (b) In the Mundell-Fleming model with floating exchange rates, explain what happens to aggregate income, exchange rate, and the trade balance when taxes are raised. What would happen if exchange rates were fixed rather than floating? [10 Marks]
- (c) In the Mundell-Fleming model with floating exchange rates, explain what happens to aggregate income, the exchange rates and the trade balance when money supply is reduced. What would happen if exchange rates were fixed rather than floating? [10 Marks]