



**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: NOVEMBER 2019	PAPER: THEORY
DURATION: 2 HOURS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
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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 Potential GDP is the:

- a) the value of production with fully employed resources
- b) current value of production
- c) value of production when the economy is in a recession
- d) value of production when the economy is at a peak

1.2 which one of the following according to Milton Friedman is not a key determinant of the demand for money ...

- a) Aggregate wealth.
- b) Precautionary motive.
- c) Relative rates of return obtained on different forms of assets.
- d) Physical non-human capital goods and human capital.

1.3 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) Frictional unemployment

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 A commercial bank is able to create money by:

- (a) issuing cheques to depositors
- (b) printing it
- (c) creating a demand deposit as it extends a new loan
- (d) maintaining reserves

1.6 Inflation caused by rises in the price of inputs is known as:

- (a) demand-pull inflation
- (b) cost-push inflation
- (c) inertial inflation
- (d) CPI

1.7 Expansionary monetary policy

- (a) Tends to lead to an appreciation of a nation's currency
- (b) Usually has no effect on a currency's exchange value
- (c) Tends to lead to a depreciation of the currencies of other nations
- (d) Tends to lead to a depreciation of a nation's currency

1.8 Who is hurt the most by inflation?

- (a) Fixed income earners
- (b) People who borrowed money from the bank
- (c) Flexible income earners
- (d) Debtors

1.9 The sale in the year 2016 of an automobile produced in the year 2015 would not be included in the gross domestic product for 2016, because including it would involve

- (a) Including a nonmarket transaction.
- (b) Including a nonproduction transaction.
- (c) Including a noninvestment transaction.
- (d) Multiple counting.

1.10 If there is cyclical unemployment in the economy the government might:

- (a) Increase interest rates
- (b) Increase taxes
- (c) Increase government expenditure
- (d) Encourage savings

1.11 Assuming a marginal propensity to consume of 0.8, calculate the total change in income in response to an increase in investment of NS60 000:

- (a) NS60 000
- (b) NS300 000
- (c) NS240 000
- (d) NS48 000

1.12 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

1.13 Fiscal policy refers to

- (a) Government's attempt to regulate prices.
- (b) Government's attempt to have a surplus budget.
- (c) Government's attempt to have tax receipts exactly equal to expenditures.

(d) The use of government expenditures and tax policies to effect aggregate demand

1.14 A depreciation of the Namibian dollar refers to

- (a) A loss of foreign exchange reserves.
- (b) Intervention in international foreign currency markets.
- (c) A decrease in the Namibian dollar price of foreign currency.
- (d) An increase in the Namibian dollar price of foreign currency

1.15 Which of the following is not a function of money?

- (a) Hedge against inflation
- (b) Medium of exchange
- (c) Unit of account
- (d) Store of value

1.16 During the recovery phase (upswing) of the business cycle

- (a) Output, profits and employment are rising.
- (b) Unemployment and idle production capacity are at their highest levels.
- (c) Output, interest rates and the level of employment are falling.
- (d) employment and profits are at their highest level

1.17 Structural unemployment means there are:

- (a) More people seeking work than there are jobs in a particular labour market.
- (b) More jobs than workers in a particular industry.
- (c) Wages that are too low in a particular industry.
- (d) People just entering the labour force.

1.18 Trade based on comparative advantage assures that

- (a) Only the strongest survive.
- (b) Some people are rich and others are poor.
- (c) Each item is produced at as low a cost possible in terms of other things given up.
- (d) Every trade has a winner and a loser

1.19 Economic growth is best defined as

- (a) An increase in the GDP per capita.
- (b) An increase in the level of real GDP.
- (c) An increase in consumption.
- (d) An increase in the size of the public sector

1.20 Which of the following people or firms would be pleased by a depreciation of the Namibia dollar?

- (a) A French exporter of wine to Namibia.
- (b) An American tourist visiting Windhoek.
- (c) A Namibian importer of French wine.
- (d) None of the above.

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 within the borders of a country within a period of one year. [T/F]
- 1.2 To compare one country's GDP with that of another country, we need to distinguish between nominal GDP and value added method. [T/F]
- 1.3 Net factor payments is calculated by subtracting factor receipts from factor payments. [T/F]
- 1.4 An increase in the reserve requirement causes the money supply to decrease and interest rates to increase. [T/F]
- 1.5 Standard bank is the monetary authority in Namibia. [T/F]
- 1.6 Market failure occurs when the market does not lead to a desired result and some needs of the community are not satisfied. [T/F]
- 1.7 If Alfred earns N\$30 000 with tax payment of N\$ 4500, and Sofi earns N\$ 50 000 with N\$ 10 000 tax payment, then we call this regressive taxation. [T/F]
- 1.8 The equation for net exports is imports minus exports. [T/F]
- 1.9 If the opportunity cost for Mozambique is 1 chocolate = 4 barrels beer and Namibia is 1 chocolate = 6 barrels beer, then Namibia has comparative advantage in producing chocolates. [T/F]
- 1.10 One of the basic assumptions of the Keynesian model is that wages and prices are flexible and change constantly. [T/F]
- 1.11 When you have a problem of Unemployment in the economy, Government should

- implement an expansionary fiscal policy. [T/F]
- 1.12** Frictional unemployment is sometimes called push cost unemployment. [T/F]
- 1.13** You can find the basket of goods and services used to calculate inflation rate in Pick n pay store at a very cheap price. [T/F]
- 1.14** Changes in weather will influence the level of agricultural output and in turn influence business activities. [T/F]
- 1.15** New housing construction is considered investment and is counted in GDP. [T/F]
- 1.16** Intermediate goods are used in the production process to produce final goods. [T/F]
- 1.17** Fiscal policy includes deliberate changes in government spending and taxation to promote macroeconomic goals. [T/F]
- 1.18** An increase in consumer spending leads to a reduction in prices in the long run .[T/F]
- 1.19** Transfer payments are not counted in the calculation of GDP. [T/F]
- 1.20** The Namibian government can use expansionary fiscal and monetary policies to increase the aggregate demand for goods and services [T/F]

SECTION C

20 Marks

QUESTION 1 [15 marks]

1.1 A farmer in Tsumeb town grows a bushel of wheat and sells it to a miller for N\$3.00. The miller turns the wheat into flour and sells it to a baker for N\$7.00. The baker uses the flour to make a loaf of bread and sells it to a student for N\$12.00. The student eats the bread.

- a) Compute a value added at each stage of production [3 marks]
- b) Compute GDP [2 marks]

1.2 Given the information in Table 1 below, use the **income method** to calculate:

Table 1: National accounts of Namibia

Items	Millions N\$
Gross capital formation	135591
Exports of goods and services	253804
Consumption expenditure by the general government	160640
Net operating surplus	243991
Consumption of fixed capital	112633
Residual	4297
Other taxes on production	16023
Other subsidies on production	2367
Taxes on product	84453
Compensation of employees	423713
Subsidies on product	4809
Consumption expenditure by Households	555818
Imports of goods and services	227919

- a) GDP at factor cost [5 marks]
- b) GDP at market price [5 marks]

QUESTION 2 [5 marks]

- 2.1 If Mrs Coetzee deposits N\$10000 in her FNB saving account, calculate the value of the multiplier and the amount of money that can be created given the following reserve requirements: [4 marks]

Reserve requirement	Multiplier	Money created
10%		
7%		

- 2.2 Define the term repo rate. [1 mark]

SECTION D

20 Marks

QUESTION 1 [10 marks]

1.1 An important function of a Central bank is the management of money, banking system and the implementation of monetary policy.

a) What influence would the following changes in monetary policy have on the economy? Also, state whether monetary policy is restrictive (contractionary) or expansionary in each case.

(i) The BON raises the required reserve ratio from 3% to 4%. [3 marks]

(ii) The Executive Committee of the BON lowers the repo rate from 6% to 5.5%. [3marks]

b) In Namibia a bottle of beer sells for N\$20. Assume the exchange rate between the Namibian dollar and the US dollar is USD1=N\$8.50, what is the price of the bottle of beer in US dollars? [2marks]

c) A Mercedes Benz costs €45 000 and the exchange rate between the Euro (€) and the Namibian dollar is N\$1= €0.15. If the other costs that may be involved are ignored, what is the price of the Mercedes Benz in Namibian dollars? [2 marks]

QUESTION 2 [10 marks]

2.1 Use the information in Table 2 to answer the questions below. Assume there is no depreciation, no foreign sector and no government sector.

Table 2: Consumption spending and Income in a closed economy

Consumption (C)	Income (Y)
25	0
60	50
95	100
130	150
165	200
200	250

- (a) What is the amount of autonomous consumption? [1 mark]
- (b) What is the amount of saving or dissaving when $Y = N\$50$? [2 marks]
- (c) Suppose income increases from 50 to 100. Calculate the marginal propensity to consume (MPC) and marginal propensity to save (MPS). [6 marks]
- (d) Which of the following consumption functions is based on the information given in Table 2? [1 mark]
- (i) $C = 25 + 0.3Y$
 - (ii) $C = 1.43Y$
 - (iii) $C = 25 + 0.7Y$
 - (iv) $C = 0.7Y$
 - (v) $C = 25 + 1.43Y$

SECTION E

20 Marks

QUESTION 1 [10 Marks]

- 1.1** The Namibian economy is currently facing serious headwinds in terms of high and rising structural unemployment coupled with high inflation. You have just been appointed as the Economic Advisor to the President of Namibia. What policy measures would you propose to solve this problem of structural unemployment? [10 marks]

QUESTION 2 [10 Marks]

- 2.1** There are a number of African countries that have been experiencing high economic growth but no economic development.
- (a) Distinguish between economic growth and economic development [3 marks]
- (b) How are economic growth and development measured? [2 marks]
- (c) What are the major sources of economic growth? [5 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		
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