2nd OPPORTUNITY EXAMINATION QUESTION PAPER

This paper consists of 2 pages, including this front page. The paper is applicable to the full-time, part-time, as well as, the distance learning candidates.

INSTRUCTIONS

1. A pocket calculator may be used
2. Candidates must answer all four (4) questions.
3. All questions have equal marks as shown against the question.
4. Show all your working, including the formula used and round off all your answers to 2 decimal places.
5. Number your answers in accordance with the question paper.
6. Start each question/answer on a new page.
7. Write clearly and legibly.
QUESTION 1

Assume a two-sector economy where

\[ C = 100 + 0.8Y \]
\[ I = 1200 - 30r \]
\[ L_1 = 0.25Y \]
\[ L_2 = 1375 - 25r \]
Where \( M^d = L_1 + L_2 \)
and \( M' = 2500 \)

a) Solve for the equilibrium levels of income and interest rate. (15)

b) Solve for the equilibrium levels of \( C, I, L_1 \) and \( L_2 \) (10)

QUESTION 2

"Merchant Banks perform a variety of critical functions in modern economies". Do you agree? Authenticate the validity of this statement. (25)

QUESTION 3

The projected cash flow stream for a project proposal is given as follows: (The cost of capital is 5%)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>CASH INFLOWS (N$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>-(334950)</td>
</tr>
<tr>
<td>1</td>
<td>60 000</td>
</tr>
<tr>
<td>2</td>
<td>60 000</td>
</tr>
<tr>
<td>3</td>
<td>60 000</td>
</tr>
<tr>
<td>4</td>
<td>60 000</td>
</tr>
<tr>
<td>5</td>
<td>60 000</td>
</tr>
<tr>
<td>6</td>
<td>60 000</td>
</tr>
<tr>
<td>7</td>
<td>60 000</td>
</tr>
</tbody>
</table>

(a) Determine the Internal Rate of Return in respect of this project proposal. (16)

(b) Comment on the acceptability or otherwise of this project. (9)

QUESTION 4

"Despite the heavy reliance of the Less Developed Countries in the use of macroeconomic policies, high levels of unemployment are still common features of these Economies". Elaborate upon the various reasons for the ineffectiveness of Macroeconomic policies in these economies. (25)

TOTAL MARKS: 100