



**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: IMA612S	COURSE NAME: INTERMEDIATE MACROECONOMICS
SESSION: JANUARY 2019	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER	
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<p style="text-align: center;">INSTRUCTIONS</p> <ol style="list-style-type: none">1. This paper consist of section A and B2. Answer ALL questions.3. Number your answers in accordance with the question paper.4. Start each section Answer on a new page5. Write clearly and legibly
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PERMISSIBLE MATERIALS

1. Pen
2. Ruler
3. Calculator

THIS QUESTION PAPER CONSISTS OF 5 PAGES (Including this front page)

MULTIPLE CHOICE QUESTIONS**SECTION A**

1. **An increase in aggregate demand is more likely to lead to demand-pull inflation if:**
 - a) Aggregate supply is perfectly elastic
 - b) Aggregate supply is perfectly inelastic
 - c) Aggregate supply is unit elastic
 - d) Aggregate supply is relatively elastic

2. **An increase in costs will:**
 - a) Shift aggregate demand
 - b) Shift aggregate supply
 - c) Reduce the natural rate of unemployment
 - d) Increase the productivity of employees

3. **If the Keynesian consumption function is $C = 10 + 0.8 Y_d$ then, when disposable income is £1000, what is the marginal propensity to consume?**
 - a) 0.8
 - b) 800
 - c) 810
 - d) 0.81

4. **If the Keynesian consumption function is $C = 10 + 0.8 Y_d$ then, when disposable income is £1000, what is the average propensity to consume?**
 - a) 0.8
 - b) £800
 - c) £810
 - d) 0.81

5. **As national income increases:**
 - a) The average propensity to consume falls and gets nearer in value to the marginal propensity to consume

- b) The average propensity to consume increases and diverges in value from the marginal propensity to consume
 - c) The average propensity to consume stays constant
 - d) The average propensity to consume always approaches infinity
- 6. The supply creates its own demand". This is the famous law of----**
- a) Market (Say's Law of Market)
 - b) Demand
 - c) Supply
 - d) None of the above.
- 7. Keynesian theory of employment is based on the concept of-----**
- a) Aggregate Demand
 - b) Aggregate Supply
 - c) Aggregate Demand and Supply both
 - d) None.
- 8. The investment which is undertaken independently of the level of income is known as----**
- a) Autonomous Investment
 - b) Induced Investment
 - c) Public Investment
 - d) Private Investment
- 9. The components of aggregate demand is/ are-----**
- a) Household consumption expenditure
 - b) Govt final conspt. expenditure
 - c) Pvt and public investment expenditure
 - d) All
- 10. A situation when the workers are willing to work under any conditions and at any wage rate but they fail to get employment, it is called-**
- a) Voluntary Unemployment
 - b) Involuntary Unemployment
 - c) Cyclical Unemployment
 - d) Frictional Unemployment

QUESTION ONE

[30 MARKS]

Panama island is a hypothetical small closed economy in the northern part of Nalubia continent. Autonomous consumption in Panama dollars is 2000 and *government spending = Taxes =* 1000. The investment function is $I = 2000 - 25r$ and the money demand function is $\left(\frac{M}{P}\right)^d = Y - 10r$. Money supply is 1000 and the price level is 2. Let us assume that marginal propensity to consume is 0.6.

Based on the information about Panama island above, answer the questions that follow. Round your answer off to two decimal points, where applicable.

- a. Derive the equations for the IS curve and the LM curve. [8 marks]
- b. Find the equilibrium interest rate. [5 marks]
- c. Compute the equilibrium level of income. [5 marks]
- d. Use the IS-LM model to graphically depict the equilibrium interest rate and level of income calculated in (b) and (c) above. Show both intercepts. [5 marks]
- e. Suppose that the government decides to double both the taxes and government spending. Calculate the new equilibrium rate of interest and the equilibrium level of investment. 5 marks
- f. Does your answer in (e) above depend on the marginal propensity to consume? [2 marks]

QUESTION TWO

[20 MARKS]

- a) Let us consider the microeconomic analysis of a single profit-maximizing firm deciding whether or not to undertake an investment. Suppose a machine which has a known life of only one year is expected to yield N\$25000.00 at the end of the year. The machine present cost is N\$19000.00 and a rate of interest is 4%.
 - i. Calculate the rate of return [3marks]
 - ii. Use the answer in part i) to determine if the investment is profitable or not. [3 marks]
- b) Distinguish between autonomous and induced investment [4 marks]
- c) Explain the main difference between economic growth and economic development? [4 marks]
- d) Discuss the main determinant of economic growth. [6 marks]

Question Three**[30 marks]**

Use the information on Namibia economy in the table below to answer the following question:

	2015 (quantity)	2016 (quantity)	Price in 2015
Uranium	1000 tons	1800 tons	N\$1500 per ton
Diamond	1700 carat	2100 carat	N\$2700 per carat

- a) Calculate nominal GDP for 2015 and 2016 given that general prices increase by 15 per cent on average for each commodity. [10 marks]
- b) Use the information in the table above and take 2015 as your base year to comment on the Namibia economy performance between 2015 and 2016. In your discussion make sure you pay attention to employment and standard of living. [10 marks]
- c) Explain the main features of the permanent income, the life-cycle and the relative income hypotheses as alternatives to the absolute income hypothesis [10 marks]

All the best