



**NAMIBIA UNIVERSITY  
OF SCIENCE AND TECHNOLOGY**

**FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION**

**DEPARTMENT OF ECONOMICS ACCOUNTING AND FINANCE**

<b>QUALIFICATION:</b>	<b>BACHELOR OF ECONOMICS HONOURS DEGREE</b>		
<b>QUALIFICATION CODE:</b>	08HECO	<b>LEVEL:</b>	8
<b>COURSE CODE:</b>	AME820S	<b>COURSE NAME:</b>	ADVANCED MACROECONOMICS
<b>SESSION:</b>	NOV 2023	<b>PAPER:</b>	THEORY
<b>DURATION:</b>	3 HOURS	<b>MARKS:</b>	100

<b>FIRST OPPORTUNITY EXAMINATION QUESTION PAPER</b>	
<b>EXAMINER (S)</b>	Prof. T. Sunde
<b>MODERATOR:</b>	Dr Reinhold Kamati

<b>INSTRUCTIONS</b>
1. Answer ALL the questions. 2. Write clearly and neatly. 3. Number all the answers.

**PERMISSIBLE MATERIALS**

1. Ruler
2. Calculator

**THIS QUESTION PAPER CONSISTS OF 3 PAGES INCLUDING THE COVER PAGE**

**QUESTION 1****[25 marks]**

- a) Why is it important to learn about macroeconomics, and how does an increase in unemployment negatively impact society's well-being? Include at least five such impacts in your response. [15]
- b) Explain a demand and supply model for bread, identifying all the endogenous variables and two exogenous variables. Also, briefly describe how prices behave in the short and long run. [10]

**QUESTION 2****[25 marks]**

1. In the prosperous nation of Namiland, the economy is steered by producing and selling various goods and services. This analysis will concentrate on three pivotal goods: A, B, and C. For four years, from 2019 to 2022, these goods played an instrumental role in the macroeconomic adjustments of Namiland. The table below offers a detailed perspective on these goods' price (P) and quantity (Q) over the mentioned years.

	2019		2020		2021		2022	
	P	Q	P	Q	P	Q	P	Q
Good A	\$20	500	\$22	550	\$25	530	\$26	520
Good B	\$150	100	\$152	105	\$155	103	\$156	104
Good C	\$5	1000	\$6	980	\$7	970	\$7.5	960

- a) Compute the nominal GDP for each of the years from 2019 to 2022 for Namiland. [5]
- b) Using 2019 as the base year, compute the real GDP for each subsequent year up to 2022 for Namiland. [5]
- c) Based on your calculations from (a) and (b), determine the GDP deflator for each year for Namiland. [5]
- d) Calculate the inflation rate for each year starting from 2020 for Namiland. Discuss its implications regarding Namiland's economic trajectory during this period. [5]
- e) Observing the data table, which good, A, B, or C, underwent the most considerable percentage change in its price from 2019 to 2022 in Namiland? How might economic dynamics account for this transformation? [5]

**QUESTION 3****[25 marks]**

- a) Explain the distinctions between the standard IS-LM model and the Mundell-Fleming IS\*-LM\* model. How do these models differ in their assumptions and implications for policy effectiveness in open and closed economies? [10]
- b) Evaluate the effectiveness of monetary, fiscal, and trade policies in a small open economy, particularly focusing on the impacts of an increase in government expenditure, an increase in money supply, and import restrictions. Analyse the outcomes of these policies under

both floating and fixed exchange rate systems, and consider their implications for economic stability, growth, and international trade. [15]

**QUESTION 4**

**[25 marks]**

a) Consider an economy characterised by the equations:

$$\begin{aligned} Y &= C + I + G + NX, \\ Y &= 5,000, \\ G &= 1000, \\ T &= 1,000, \\ C &= 250 + 0.75(Y - T), \\ I &= 1000 - 50r, \\ NX &= 500 - 500\epsilon, \\ r &= r^* = 5. \end{aligned}$$

- i. Calculate the values of national savings, investment, trade balance, and the equilibrium exchange rate in the initial scenario. [10]
  - ii. Assess the impact on these variables when government expenditure increases to 1,250 and explain the economic mechanisms behind the changes observed. [5]
  - iii. Analyse the effect of a rise in the world interest rate from 5% to 10% (with G returning to 1,000) on national saving, investment, trade balance, and equilibrium exchange rate, and interpret the economic implications. [5]
- b) In the context of the economy above, critically evaluate how changes in government spending and world interest rates affect critical economic variables, such as investment, national saving, trade balance, and the equilibrium exchange rate. Use your calculations from part (a) to support your arguments and provide insights into the potential policy implications and responses that might be considered to mitigate any adverse effects. [5]

**QUESTION 5**

**[25 marks]**

Given the current recession and rising uncertainties in Namibia leading to delayed expenditures by households and businesses:

- a) Utilise the AD-SRAS-LRAS framework to analyse the anticipated short-run and long-run effects of the recession on the following economic variables:
- Price level
  - Real GDP
  - Employment
  - Consumption
  - Investment
  - Exports

Incorporate a detailed discussion on how the recession, compounded by heightened uncertainties and deferred expenditures, influences each variable. Utilise graphical illustrations to support your analysis, showcasing the shifts in the AD, SRAS, and LRAS curves and the resultant equilibrium points. [15]

b) Enumerate the policy measures available to the Bank of Namibia to counteract the recessionary pressures in the short run. Evaluate each policy option's potential effectiveness and limitations, considering Namibia's specific economic and institutional context.

[5]

c) Extend your analysis to explore the long-term implications of these policy choices. Consider the impacts on inflation, unemployment, fiscal balance, and external trade. Discuss the potential trade-offs and challenges the Bank of Namibia might face in balancing short-term recovery efforts with long-term economic stability and growth.

[5]