



**PAMIBIA UNIVERSITY**  
OF SCIENCE AND TECHNOLOGY

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

**DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE**

<b>QUALIFICATION: BACHELOR OF ECONOMICS HONOURS</b>	
<b>QUALIFICATION CODE: 08HECO</b>	<b>LEVEL: 8</b>
<b>COURSE CODE: AME8020S</b>	<b>COURSE NAME: ADVANCED MACROECONOMICS</b>
<b>SESSION: NOVEMBER 2025</b>	<b>PAPER: THEORY</b>
<b>DURATION: 3 HOURS</b>	<b>MARKS: 100</b>

<b>FIRST OPPORTUNITY EXAMINATION QUESTION PAPER</b>	
<b>EXAMINER(S)</b>	<b>DR P. OKWOCHÉ</b>
<b>MODERATOR</b>	<b>DR ANTHONY ADEYANJU</b>

<b>INSTRUCTIONS</b>
<ol style="list-style-type: none"><li>1. Answer ALL the questions.</li><li>2. Write clearly and neatly.</li><li>3. Number the answers clearly.</li></ol>

**PERMISSIBLE MATERIALS**

1. PEN,
2. PENCIL
3. CALCULATOR

**THIS QUESTION PAPER CONSISTS OF 4 PAGES** (Including this front page)

**Question 1****[25 marks]**

Suppose an economy produces two goods, A and B, measured in thousands, as shown in the following table. Use 2020 as the base year and round to two decimal places, where necessary:

Good	2020		2025	
	Quantity	Price (N\$)	Quantity	Price (N\$)
A	2000	35	2500	70
B	2000	55	5000	70

- (a) Compute the nominal GDP and real GDP for each year and explain briefly the difference between the two measurements [5]
- (b) Calculate the rate of inflation for year 2025 based on GDP deflator and the consumer price index (CPI) [5]
- (c) For each good and for the two measures of the overall price level, calculate the percentage change in price between 2020 and 2025 [7]
- (d) From your calculations in (c), compare the results given by the Paasche and Laspeyres price indexes and briefly explain why the CPI may give a higher inflation rate than the implicit price deflator for GDP [8]

**Question 2****[25 marks]**

- (a) Consider the impact of an increase in thriftiness in the Keynesian cross model. Suppose the consumption function is

$$C = \bar{C} + c(Y - T)$$

Where  $\bar{C}$  is the parameter called autonomous consumption and  $c$  is the marginal propensity to consume

(i) With the aid of a labelled graph, explain what happens to equilibrium income and savings when the society becomes thriftier as represented by a decline in  $\bar{C}$ . [4]

(ii) Why do you suppose this result is called the paradox of thrift? [4]

(iii) Does this paradox arise in the classical model? Explain why or why not, with graphical illustration. [4]

(b) Consider a hypothetical closed economy described by the following equations:

$$Y = C + I + G$$

$$C = 50 + 0.75(Y - T)$$

$$I = 150 - 10r$$

$$\left(\frac{M}{P}\right)^d = Y - 50r$$

$$G = 250; T = 200; M = 3000; P = 4$$

(i) Derive an expression for the IS and the LM curve and determine the equilibrium levels of income and interest rate [6]

(ii) Graph and appropriately label and IS-LM curve, showing the equilibrium levels of income and interest rate [4]

(iii) Suppose a newly elected president cuts taxes by 20%. If the money supply is held constant, what would be the new equilibrium levels of interest rate and income (where necessary, round to one decimal place). [3]

### Question 3

[25 marks]

(a) The president of Mongovia is considering imposing a tariff on the import of Japanese luxury cars. Assuming Mongovia is itself a producer of luxury cars, discuss the economics and politics of the policy using an open-economy model. Specifically, discuss:

(i) how the policy would affect Mongovia's trade deficit and the exchange rate [9]

(ii) the distributional effects of the policy – i.e., who is hurt and who benefits? [6]

(b) "Travelling to Mongovia is much cheaper than it was ten years ago", says Johannes. "Ten years ago, a US dollar bought 10 Mongovian dollars; this year, a dollar buys 17 Mongovian dollars". Is Johannes right or wrong? Given that the total inflation over this period was 25% in the United States and 100% in Mongovia, has it become more or less expensive to travel to Mongovia? Try to convince Johannes using a simple example, such as American hot dog versus Mongovian biltong [10].

**Question 4**

**[25 marks]**

- (a) Using the Mundell-Fleming model with floating exchange rates, explain what happens to income, the exchange rate, and the trade balance when there is an increase in taxes [8]
- (b) Suppose the exchange rate is fixed rather than floating, explain what happens to income, the exchange rate and the trade balance when there is an increase in taxes [7]
- (c) From your analysis, draw conclusions about the effectiveness of fiscal policy under floating versus fixed exchange rate regime [5]
- (d) Describe the trilemma of international finance [5]