NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE, HUMAN SCIENCE AND EDUCATION

DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE

QUALIFICATION : BACHELOR OF ECONOMICS	
QUALIFICATION CODE: 07BECO	**LEVEL:** 7
COURSE CODE: IMA612S	**COURSE NAME**: INTERMEDIATE MACROECONOMICS
SESSION: JANUARY 2025	**PAPER:** THEORY
DURATION: 3 HOURS	**MARKS: 100**

SECOND OPPORTUNITY QUESTION PAPER	
EXAMINER(S)	MR. P. NANGULA
MODERATOR	Ms. N N Shitenga

INSTRUCTIONS
1. Answer **ALL** questions. 2. Number your answers in accordance with the question paper. 3. Write clearly and legibly

PERMISSIBLE MATERIALS

1. Pen
2. Ruler
3. Calculator

THIS QUESTION PAPER CONSISTS OF _3_ PAGES (Including this front page)

QUESTION ONE **[30 MARKS]**

The table below shows average costs in each category that are used in the calculation of inflation for each category between 2019 and 2020 in Namibia [imaginary].

Categories	January 2010[Cost of items]	January 2019[Cost of items]	January 2020[Cost of items]
Food and non-alcoholic beverages	N$256	N$310	N$389
Alcoholic beverages and tobacco	N$28	N$31	N$38
Clothing and footwear	N$78	N$83	N$97
Housing, water, electricity, gas and other fuels	N$387	N$493	N$586
Furnishings, household equipment and routine maintenance of house	N$146	N$187	N$210
Health	N$256	N$325	N$394
Transport	N$712	N$756	N$896
Communications	N$26	N$37	N$42
Recreation and culture	N$574	N$695	N$789
Education	N$563	N$599	N$624
Hotels, cafes and restaurants	N$985	N$1235	N$1953
Miscellaneous goods and services	N$23	N$38	N$36

a) Use 2019 as base year to calculate the overall inflation between 2022 and 2023 [20 mark]

b) Calculate each basket contribution to the overall inflation. [10 marks]

QUESTION TWO **[25 MARKS]**

Let us assume a closed economy with government expenditure (Go), household expenditure (Co) is autonomous, and investment as a function of interest rate ($I = 50 - 2r$). For simplicity, let us say interest rate increases from 10% to 15%.

a) Use a well labelled graph to show the relationship between investment and interest rate. [5 marks]

b) Draw the Keynesian cross when interest rate increases from 10% to 15% while government expenditure is N$100 and household expenditure is N$150 remain constant [5 marks]

c) Use answers in part a) and b) to derive IS curve. [5 marks]

d) If government expenditure decreases from N$100.00 to N$70.00, Show the effect of government expenditure decreases on equilibrium national income and equilibrium interest rate. [10 marks]

QUESTION THREE **[45 MARKS]**

a) Highlight some of the main differences between the classical theory of full employment and the Simple Keynesian Theory of employment. [10 marks]

b) Give the summary of the following income hypothesis

i. Absolute income hypothesis [3 marks]

ii. Permanent income hypothesis [3 marks]

iii. Relative income hypothesis [3 marks]

iv. Life cycle income hypothesis [3 marks]

c) Consider the following short-run model of closed economy with following information: Gov spending = N$2000; Tax = N$1000; Money supply = N$1000; C=1000+0.2Yd; Price = N$10 and $L(Y,r) = Y - 2r$; $I(r) = 500 - 5r$;

i. Use the information above to work out IS equation and LM equation. [8 marks]

ii. Find the short-run equilibrium interest rate and output level [2 marks]

iii. Let us assume bank of Namibia decides to increase money supply with N$500, use a well labelled graph to show the effect of this policy on interest rate and total output in the economy. [8 marks]

d) If the level of income in the current year is N$ 8000, the level of income in the past period is N$6500 and the net investment is N$ 3,000. Calculate the accelerator coefficient. [5 marks]

All the Best