

BINDURA UNIVERSITY OF SCIENCE EDUCATION
FACULTY OF COMMERCE
DEPARTMENT OF ECONOMICS
BACHELOR OF SCIENCE HONOURS DEGREE IN ECONOMICS
MACROECONOMICS: EC209 (1)
DURATION: 3 HOURS

JUN 2024

INSTRUCTIONS TO CANDIDATES

1. Answer any four (4) questions.
 2. The paper carries six (6) questions.
 3. All questions carry equal marks of 25 each.
 4. No cellphones allowed in the exam room.
-

Question 1

- a. Explain the effects of devaluation on the ISLM model in an open economy with capital mobility and fixed exchange rate. **[15 marks]**
- b. Use the ISLM framework to explain the effects of a government expansionary fiscal policy under fixed exchange rate and capital mobility. **[10 marks]**

Question 2

- a. Discuss the relevance of the following theories in explaining the savings rate in Zimbabwe:
 - i. Life Cycle Hypothesis **[7 marks]**
 - ii. Permanent Income Hypothesis **[8 marks]**
- b. Suppose that consumers obey the Permanent Income Hypothesis. What is the effect on their consumption when the government:
 - i. Cuts its taxes and **[5 marks]**
 - ii. Increases its tax. **[5 marks]**

Question 3

Choose any two investment theories and evaluate how they can be applicable to the Zimbabwean economy. **[25 marks]**

Question 4

- a. Using the Keynesian economists view, explain and illustrate the effects of changes in capital using:
- i. Production function. **[5 marks]**
 - ii. Labour market equilibrium concept. **[8 marks]**
 - iii. Aggregate supply schedule. **[5 marks]**
- b. Discuss the usefulness of the Keynesian approach to Zimbabwe's labour market. **[7 marks]**

Question 5

- a. Derive the foreign gap and the domestic gap and explain how they can be used to solve the current account deficit in an economy like Zimbabwe. **[15 marks]**
- b. Explain Zimbabwe's limitations to global funding despite its investment borrowing appetite. **[10 marks]**

Question 6

- a. Explain the role of bequest in inter-temporal economics and investment decisions in developing countries. **[10 marks]**
- b. Credit rationing theory of investment is the only way out of the investment mess in Zimbabwe. Discuss this statement. **[15 marks]**

END OF PAPER