

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ECONOMICS

EC107 (3): ECONOMIC PRINCIPLES 11

NOV 2023

PROGRAMMES

BACHELOR OF SCIENCE HONOURS IN ECONOMICS

BACHELOR OF ACCOUNTANCY

BACHELOR OF COMMERCE HONOURS IN MARKETING

BACHELOR OF COMMERCE HONOURS IN PURCHASING & SUPPLY

BACHELOR OF BUSINESS ADMINISTRATION HONOURS IN POLICE & SECURITY
STUDIES

BACHELOR OF COMMERCE HONOURS IN FINANCIAL INTELLIGENCE

BACHELOR OF COMMERCE HONOURS IN BANKING AND FINANCE

DURATION: 3 HOURS TOTAL MARKS: 100

INSTRUCTIONS TO CANDIDATES

- (i) **Section A** is compulsory.
- (ii) Answer questions in **Section A** on the separate sheet provided by marking the appropriate answer with an 'X'.
- (iii) Answer any **two** questions from **section B**.
- (iv) Start each answer for **section B** on a new page.
- (v) No cell phones are allowed into the examination room.
- (vi) Marks for **section B** are in parenthesis.

Section A (Answer all questions: Total 50 marks)

1. Compared to expansionary monetary policies adopted to counteract a recession, expansionary fiscal policies tend to result in:

- A. less public spending
- B. higher interest rates.
- C. lower prices.
- D. high rate of economic growth
- E. decreased investment by foreign countries.

2. Tax revenues act as an automatic stabilizer because:

- A. they increase during economic booms and decrease during economic recessions.
- B. they decrease during economic booms and decrease during economic recessions.
- C. tax rates will automatically increase to stimulate the economy during economic recessions.
- D. tax rates will automatically increase if the government is running deficits.

3. At an income of \$100,000, I spent \$90,000 on consumer goods. When my income rose to \$200,000, I spent \$160,000 on consumer goods. My marginal propensity to consume is:

- A. 0.9
- B. 0.8
- C. 0.7
- D. 1
- E. \$70,000

4. Assume that net exports increase by \$1 billion. Equilibrium Real GDP will rise by more than \$1 billion. Explain why there is a multiplier.

- A. An increase in net exports appreciates the dollar causing a further increase in exports.

EX0012

B. An increase in net exports causes an increase in tax revenues which increases government spending.

C. An increase in net exports increases income causing an increase in induced consumption

D. An increase in net exports causes an increase in the money supply

5. If a Zimbabwean construction company built a road in Malawi, this activity would be:

A. excluded from Zimbabwean GNP.

B. fully included in Zimbabwean GDP.

C. included in Zimbabwean GNP only for that portion that was attributable to Zimbabwean capital and labour.

D. included in Zimbabwean GDP but not in Zimbabwean GNP.

6. When you are estimating your monthly expenses, you are using money as:

A. a unit of account.

B. a medium of exchange.

C. a standard unit of deferred payment.

D. a store of value.

E. all of the above.

7. If the nominal interest rate on a checking account is 2% and the inflation rate is 3% this year, the real interest rate is:

A. 5%

B. 2%

C. $\frac{2}{3}\%$

D. -1% E.

8.If all the banks in the banking system collectively have \$20 million in cash reserves and have a desired reserve ratio of 20 percent, the maximum amount of demand deposits the banking system can support is

- A. \$4 million.
- B. \$40 million.
- C \$80 million.
- D \$100 million.
- E. \$400 million.

9.Publicly subsidized education and retraining schemes are:

- A. aimed at reducing cyclical unemployment.
- B. aimed at reducing structural unemployment.
- C. ways of resisting adjustment to technological change.
- D. used to encourage employment in low-paying jobs.
- E. used to encourage the use of efficiency-wages.

10.If the actual unemployment rate is below the natural rate of unemployment, it would be expected that:

- A. the rate of inflation would increase.
- B. wages would fall.
- C. the Phillips curve would shift to the left.
- D. the natural rate of unemployment would fall

11. The normal turnover of labour and the usual time it takes to find a satisfactory job opening causes unemployment to persist even at potential GDP. This type of unemployment is called

- A. frictional

EX0012

- B. involuntary
- C. structural
- D. a situation where actual unemployment greater than NAIRU
- E. cyclical

12. A rise in the price level will:

- A. increase the purchasing power of money.
- B. increase the value of money.
- C. stabilize the value of money.
- D. has no effect on the value of money
- E. decrease the purchasing power of money.

13. According to the monetarists, in the long-run, the Phillips Curve is:

- A. vertical
- B. horizontal
- C. downward-sloping
- D. upward-sloping

14. Which of the following best explains how an economy could simultaneously experience high inflation and high unemployment?

- A. The government increases spending without increasing taxes.
- B. The government increases taxes without increasing spending.
- C. Inflationary expectations decline.
- D. Women and teen-agers stay out of the labour force.
- E. Negative supply shocks cause factor prices to increase.

15. "Foreign exchange" refers to:

- A. the price at which purchases and sales of foreign goods take place.

- B. the actual transaction that occurs as currencies are traded.
- C. foreign currency or various claims on it.
- D. the difference between exports and imports.
- E. the movement of goods and services from one country to another

16. When a country devalues its currency, we expect that:

- A. income will rise because the devaluation stimulates aggregate demand.
- B. income will rise because the devaluation stimulates aggregate supply.
- C. income will fall because the devaluation reduces aggregate demand.
- D. income will fall because the devaluation reduces aggregate supply.
- E. There will be no change in income because income is earned from production, not from trade.

17. US imports, US citizens travelling outside of US, and foreign capital flows out of US give rise to:

- A. a demand for foreign currencies on the foreign exchange-market.
- B. a higher value of the US dollar.
- C. an increase in foreign exchange reserves in US.
- D. a demand for US dollar on the foreign exchange market.

18. With respect to the balance of payments,

- A. if the current account is in surplus, the capital account must also be in surplus.
- B. the current account balance must be zero.
- C. if the current account is in deficit, the capital account must also be in deficit.
- D. total payments must equal total receipts.
- E. the trade account balance must be zero.

19. In an open economy like Canada or the USA, a decrease in the money supply leads to:

- A. an increase in the external value of the dollar, thereby stimulating net exports and raising aggregate demand.
- B. a reduction in the external value of the dollar, thereby stimulating net exports and raising aggregate demand.
- C. a reduction in the external value of the dollar, thereby inhibiting net exports and raising aggregate demand.
- D. an increase in the external value of the dollar, thereby inhibiting net exports and reducing aggregate demand.
- E. an increase in the external value of the dollar, thereby stimulating net exports and reducing aggregate demand.

20. Which one of the following transactions would appear as a debit in the current account of the Canadian balance of payments?

- A. Canadian tourists in France purchase French francs.
- B. Canadians receive dividends on U.S. investment in Latin America.
- C. A Canadian subsidiary exports raw materials to its Dutch parent company.
- D. The Bank of Canada purchases German marks to hold in its official reserves.
- E. The Arabian Capital Investment Corporation makes a loan to a Canadian firm.

21. The most direct effect of an increase in the growth rate of average labour productivity would be an increase in:

- A. the inflation rate.
- B. the unemployment rate.
- C. the long—run economic growth rate.
- D. imported goods.

22. Changes in which of the following factors would affect the growth of an economy?

- I. Quantity and quality of human and natural resources.

II. Amount of capital goods available.

III. Technology

- A. I only
- B. I and II only
- C. I and III only
- D. II and III only
- E. I, II and III

23 Economic development refers to

- A. Economic growth.
- B. Economic growth plus changes in output distribution and economic structure.
- C. improvement in the well-being of the urban population.
- D. sustainable increases in Gross National Product.

24. An objective of the dollarization of the Zimbabwean Economy was to

- A. shield the economy from hyperinflation, currency depreciation and capital flight.
- B. allow the Federal Reserve to be its lender of the last resort
- C. ensure that its monetary policy is independent of the Federal Reserve.
- D. permit it to benefit from tariffs and subsidies imposed by the US government.

25. A credible currency board must:

- A. have a floating (flexible) exchange rate.
- B. have a balanced government budget ($G=T$).
- C. have sufficient foreign reserves to purchase 100% of their domestic money supply at the fixed exchange rate.
- D. fix domestic interest rates

26. The period of the business cycle in which real GDP is increasing is called the:

- A. expansion.
- B. peak.
- C. recession.
- D. trough.
- E. stagflation.

27. Basis of the difference between the concepts of market prices and factor cost is:

- A direct taxes
- B. indirect taxes
- C. subsidies
- D. net indirect taxes

28. The circular flow model shows that GDP can be calculated by:

- A. both the expenditure and income methods because aggregate expenditure equals aggregate income.
- B. only the expenditure method in which the four components of aggregate expenditure must be measured in the aggregate.
- C. both the expenditure and income methods, even though aggregate expenditure is usually less than aggregate income.
- D. only the income method in which the four components of aggregate income must be measured separately.

29. Gross Domestic Product (GDP) is the total market value of all

- A. final goods and services produced annually within a country's borders.
- B. final and intermediate goods and services produced annually within a country's borders.
- C. intermediate goods and services produced annually within a country's borders.

D. final goods and services produced every two years within a country's borders.

30. At an income of \$100,000, a consumer spent \$90,000 on consumer goods. When income rose to \$200,000, the consumer spent \$ 1 on consumer goods. "The marginal propensity to consume is:

A. 0.9

B. 0.8

C. 0.7

D. \$70,000

31. An increase in the money supply causes:

A. interest rates to fall, investment spending to rise, and aggregate demand to rise.

B. interest rates to rise, investment spending to rise, and aggregate demand to rise.

C. interest rates to rise, investment spending to fall, and aggregate demand to fall.

D. interest rates to fall, investment spending to fall, and aggregate demand to fall.

32. According to the quantity theory of money, a change in the domestic money supply will bring about:

A. inverse and proportionate changes in the price level

B. inverse and less-than-proportionate changes in the price level

C. direct and proportionate changes in the price level

D. direct and less-than-proportionate changes in the price level

33. If the Central Bank wishes to decrease (tighten) the money supply, it should:

A. buy Treasury securities in the open market.

B. raise the discount rate.

C. lower the reserve requirements.

D. raise marginal tax rates.

34. The Phillips curve describes the relationship between:

A. the government budget deficit and the trade deficit.

B. savings and investment

C. the unemployment rate and the inflation rate.

D. marginal tax rates and tax revenues.

35. Cost-push inflation is an inflation that results from an initial

A. an increase in money or wage rates or prices of raw materials.

B. decrease in taxes.

C. increase in Investment.

D. increase in taxes.

36. Real GDP is:

A. GDP in current-year prices.

B. GDP in base-year prices.

C. GDP in GDP-prices.

D. GDP adjusted for services.

37. One measure of the inflation rate is the:

A. sum of the CPIs of adjacent years.

B. percentage change in the GDP Deflator of adjacent years.

C. percentage change in the Real GDP of adjacent years.

D. GDP minus the real GDP in a year.

38. Dumping occurs when a foreign firm

A. pollutes international waters.

- B. disposes of waste material internationally.
- C. sells inferior output to foreigners.
- D. sells its exports at a lower price than its cost of production

39. When does the domestic government gain the MOST revenue?

- A. When it imposes a tariff.
- B. When it imposes an import quota.
- C. When it negotiates a voluntary export restraint.
- D. The amount of revenue it gains from tariff and a voluntary export restraint.

40. A major difference between the spot market and the forward market is that the spot market deals with:

- A. the intermediate delivery of currencies.
- B. the merchandise trade account.
- C. currencies traded for future delivery.
- D. hedging of international currency risks

41. What would result from a devaluation of a country's exchange rate?

- A. An increase in domestic currency price of imports.
- B. An increase in the foreign currency price of exports.
- C. An increase in the foreign currency price of imports.
- D. A reduction in the domestic currency price of exports.

42. As a policy instrument, currency devaluation may be controversial since it:

- A. imposes hardships on the exporters of foreign countries.
- B. imposes hardships on exporters of the devaluing country.
- C. is generally followed by unemployment in the devaluing country.

D. is generally followed by price deflation in the devaluing country

43. Tariffs and import quotas differ in that:

A. one is a form of trade restriction, while the other is not.

B. one is a tax, while the other is a limit.

C. one is imposed by the government, while the other is imposed by the private sector.

D. one is legal, while the other is not.

44. We are interested in long-term growth primarily because it brings

A higher standard of living.

B lower price levels.

C higher price levels.

D. trade wars with our trading partners.

45. Sustainable economic growth depends upon

A. investment, not saving.

B. saving, not investment.

C. both saving and investment.

D. neither saving nor investment.

46. Which of the following is not an element of the redistribution-with-growth policy approach?

A. Minimum wage legislation.

B. Land reform.

C. Progressive taxation.

D. Increased access to education.

47. If a country fully dollarizes its economy, it agrees to:

EX0012

- A. print its own currency only to finance deficits of its national government.
- B. use the US dollar alongside its national currency to finance transactions.
- C. have the US Treasury be in charge of its tax collections.
- D. replace its national currency with U.S. dollars in its economy.

48. The exchange rate is the

- A. value of money.
- B. quantity of euros, dollars, yen and other currencies that are traded on currency markets
- C. amount of foreign currency that is used to buy goods made in your country
- D. number of units of a foreign currency that can be bought with one unit of our own currency.

49. What is the value of MPC in Keynesian model is?

- A. Greater than zero and less than one
- B. MPC is equal to 1
- C. MPC greater than one
- D. None of the above

50. Increase in the stock of capital is known as:

- A. Capital loss
- B. Capital gain
- C. Capital formation
- D. None of the above

SECTION B

Choose any two questions

Question 1

Zimbabwe has been considered as a country with a high inflation rate

- a) Using your knowledge of macroeconomics, explain the causes of inflation in Zimbabwe (10 marks)
- b) Discuss suitable measures that Zimbabwe can implement in order to curb inflation (15 marks)

Question 2

During the SADC Summit (August 2014) it was stated by one of the political leaders that, "Industrialization should be a priority for the region to promote beneficiation and value addition to minerals and agricultural resources." Discuss the validity of this statement in light of the Zimbabwean economy. (25 marks)

Question 3

Imagine that you are asked to advise the government on ways of increasing investment in the economy. What advice would you give and why? (25 marks)

END