EX0012

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ECONOMICS

EC107 (3): ECONOMIC PRINCIPLES 11

MAR 2024

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 and B are*** *compulsory.*
(ii) *Answer questions in* ***Section A*** *on the separate sheet provided by marking the appropriate answer with an 'X'.*
(iii) *Answer any* ***one*** *question from* ***section C****.*
(iv) *Start each answer for* ***section B and C*** *on a new page.*
(v) *Write legibly.*
(vi) *Marks for* ***section B and C*** *are in parenthesis.*
(vii) *Crying is allowed but do it silently*

1. The aggregate demand (AD) curve shows the relationship between

a) The price level and the quantity of output demanded.

b) The interest rate and investment.

c) The money supply and inflation.

d) The government spending and taxes.

2. When the economy is in a recessionary gap, what is the relationship between actual output and potential output?

a) Actual output is greater than potential output.

b) Actual output is less than potential output.

c) Actual output is equal to potential output.

d) Actual output is unrelated to potential output.

3. The Phillips curve illustrates the trade-off between

a) Inflation and unemployment.

b) Consumption and savings.

c) Investment and interest rates.

d) Exports and imports.

4. The term "crowding out" refers to

a) An increase in government spending leading to a decrease in private investment.

b) An increase in private consumption leading to a decrease in government revenues.

c) A decrease in the money supply leading to an increase in interest rates.

d) A decrease in exports leading to an increase in imports.

5. The multiplier effect refers to

a) The increase in government spending resulting in a proportional increase in GDP.

b) The increase in consumption resulting from a decrease in taxes.

c) The ripple effect of an initial change in spending or investment on the overall economy.

d) The decrease in investment resulting from a decrease in interest rates.

6. The money supply is determined by

a) The central bank.

b) The government's fiscal policy.

c) The balance of trade.

d) Consumer spending patterns.

7. The term "stagflation" refers to

a) High inflation and high unemployment occurring simultaneously.

b) Low inflation and low unemployment occurring simultaneously.

c) High inflation and low unemployment occurring simultaneously.

d) Low inflation and high unemployment occurring simultaneously.

8. Fiscal policy refers to changes in

a) Government spending and taxation.

b) Interest rates and money supply.

c) Exchange rates and international trade.

d) Consumption and savings.

9. The term "capital flight" refers to

a) The transfer of capital from one country to another.

b) The flight of workers from rural to urban areas.

c) The flight of skilled labour to other countries.

d) The flight of financial assets from a country due to economic instability.

10. The term "comparative advantage" refers to

a) The ability of a country to produce a good at a lower opportunity cost than another country.

b) The ability of a country to produce a good at a lower price than another country.

c) The ability of a country to import a good at a lower price than it can produce domestically.

d) The ability of a country to export a good at a higher price than it can import.

11. The exchange rate is the

a) Price of one country's currency in terms of another country's currency.

b) Price of goods and services in an economy.

c) Interest rate charged by banks for lending money.

d) Rate at which inflation is increasing.

12. A country with a large current account deficit is most likely to experience

a) A decrease in its foreign exchange reserves.

b) An increase in its foreign exchange reserves.

c) An increase in its domestic interest rates.

d) A decrease in its domestic interest rates.

13. The term "liquidity trap" refers to a situation were

a) Interest rates are so low that monetary policy becomes ineffective.

b) The money supply is too high, leading to hyperinflation.

c) The government imposes capital controls to prevent capital flight.

d) The central bank raises interest rates to curb inflation.

14. The term "moral hazard" refers to

a) The risk that an individual or institution will take on excessive debt.

b) The risk that an individual or institution will engage in risky behavior due to the presence of insurance or a safety net.

c) The risk that an individual or institution will misreport financial information.

d) The risk that an individual or institution will engage in fraudulent activities.

15. The term "monetary policy" refers to

a) The use of government spending and taxation to influence the economy.

b) The use of interest rates and the money supply to influence the economy.

c) The use of exchange rates and trade policies to influence the economy.

d) The use of regulations and oversight to ensure financial stability.

16. The term "capital stock" refers to

a) The stock market value of a company's shares.

b) The physical tools and equipment used in production.

c) The total value of a country's exports.

d) The total value of a country's financial assets.

17. The term "inflation" refers to

a) A sustained increase in the general level of prices.

b) A decrease in the general level of prices.

c) Fluctuations in the stock market.

d) An increase in the value of a country's currency.

18. The term "deflation" refers to

a) A sustained decrease in the general level of prices.

b) A decrease in the value of a country's currency.

c) An increase in the general level of prices.

d) Fluctuations in the bond market.

19. The term "supply-side economics" refers to

a) The use of government spending to stimulate aggregate demand.

b) The use of tax cuts and deregulation to stimulate long-term economic growth.

c) The use of monetary policy to control inflation.

d) The use of trade policies to protect domestic industries.

20. The term "fiscal deficit" refers to

a) The excess of government spending over government revenues in a given year.

b) The excess of government revenues over government spending in a given year.

c) The difference between a country's imports and exports.

d) The difference between a country's investment and savings.

21. The term "Gini coefficient" is used to measure

a) Income inequality.

b) Price elasticity of demand.

c) Economic growth rates.

d) Consumer confidence.

22. The term "structural unemployment" refers to unemployment that arises due to

a) Fluctuations in the business cycle.

b) Technological changes or shifts in the structure of the economy.

c) Inadequate aggregate demand.

d) Inflationary pressures.

22. The formula for calculating the GDP (Gross Domestic Product) using the expenditure approach is

a) GDP = Consumption + Investment + Government Spending + Net Exports.

b) GDP = Consumption + Investment + Government Spending - Net Exports.

c) GDP = Consumption - Investment + Government Spending + Net Exports.

d) GDP = Consumption - Investment - Government Spending + Net Exports.

23. The formula for calculating the unemployment rate is

a) Unemployment Rate = (Number of Unemployed / Labor Force) × 100.

b) Unemployment Rate = (Number of Employed / Labor Force) × 100.

c) Unemployment Rate = (Number of Unemployed / Total Population) × 100.

d) Unemployment Rate = (Number of Employed / Total Population) × 100.

24. The formula for calculating the inflation rate using the Consumer Price Index (CPI) is

a) Inflation Rate = (Current CPI - Previous CPI) / Previous CPI × 100.

b) Inflation Rate = (Current CPI - Previous CPI) / Current CPI × 100.

c) Inflation Rate = (Previous CPI - Current CPI) / Current CPI × 100.

d) Inflation Rate = (Previous CPI - Current CPI) / Previous CPI × 100.

25. The formula for calculating the real interest rate is

a) Real Interest Rate = Nominal Interest Rate - Inflation Rate.

b) Real Interest Rate = Nominal Interest Rate + Inflation Rate.

c) Real Interest Rate = Nominal Interest Rate × Inflation Rate.

d) Real Interest Rate = Nominal Interest Rate / Inflation Rate.

26. The formula for calculating the marginal propensity to consume (MPC) is

a) MPC = Change in Consumption / Change in Income.

b) MPC = Change in Income / Change in Consumption.

c) MPC = Consumption / Income.

d) MPC = Income / Consumption.

27. The formula for calculating the marginal propensity to save (MPS) is

a) MPS = Change in Saving / Change in Consumption.

b) MPS = Change in Consumption / Change in Saving.

c) MPS = Saving / Consumption.

d) MPS = Consumption / Saving.

28. The formula for calculating the investment multiplier is

a) Investment Multiplier = 1 / Marginal Propensity to Consume (MPC).

b) Investment Multiplier = 1 / Marginal Propensity to Save (MPS).

c) Investment Multiplier = Marginal Propensity to Consume (MPC) / 1.

d) Investment Multiplier = Marginal Propensity to Save (MPS) / 1.

29. The formula for calculating the aggregate expenditure is

a) Aggregate Expenditure = Consumption + Investment + Government Spending + Net Exports.

b) Aggregate Expenditure = Consumption + Investment + Government Spending - Net Exports.

c) Aggregate Expenditure = Consumption - Investment + Government Spending + Net Exports.

d) Aggregate Expenditure = Consumption - Investment - Government Spending + Net Exports.

30. The formula for calculating the money multiplier is

a) Money Multiplier = 1 / Reserve Ratio.

b) Money Multiplier = 1 + Reserve Ratio.

c) Money Multiplier = Reserve Ratio / 1.

d) Money Multiplier = Reserve Ratio + 1.

31. The formula for calculating the fiscal multiplier is

a) Fiscal Multiplier = 1 / Marginal Propensity to Consume (MPC).

b) Fiscal Multiplier = 1 / Marginal Propensity to Save (MPS).

c) Fiscal Multiplier = Marginal Propensity to Consume (MPC) / 1.

d) Fiscal Multiplier = Marginal Propensity to Save (MPS) / 1.

32. The formula for calculating the balance of trade is

a) Balance of Trade = Exports - Imports.

b) Balance of Trade = Imports - Exports.

c) Balance of Trade = Exports + Imports.

d) Balance of Trade = Imports + Exports.

33. The formula for calculating the current account balance is

a) Current Account Balance = Exports - Imports.

b) Current Account Balance = Imports - Exports.

c) Current Account Balance = Exports + Imports.

d) Current Account Balance = Imports + Exports.

34. 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.

35. The equation for the loanable funds market is represented as S = I + NFI, where S is domestic saving, I is domestic investment, and NFI is net foreign investment. If domestic saving is \$500 and net foreign investment is \$200, what is the value of domestic investment (I)?

a) \$300

b) \$500

c) \$700

d) \$900

36. The equation for the fiscal multiplier is represented as Multiplier = 1 / (1 - MPC), where MPC is the marginal propensity to consume. If the MPC is 0.8, what is the value of the fiscal multiplier?

a) 2

b) 4

c) 5

d) 10

37. The equation for the money multiplier is represented as Multiplier = 1 / (1 - reserve ratio), where the reserve ratio is the fraction of deposits that banks hold as reserves. If the reserve ratio is 0.2, what is the value of the money multiplier?

a) 1.25

b) 1.5

c) 2.5

d) 5

38. The equation for the aggregate expenditure (AE) is represented as AE = C + I + G + NX, where C is consumption, I is investment, G is government spending, and NX is net exports. If consumption is \$1,000, investment is \$500, government spending is \$200, and net exports are \$100, what is the value of aggregate expenditure (AE)?

a) \$500

b) \$800

c) \$1,200

d) \$1,800

39. Which of the following is an example of an expansionary fiscal policy?

a) Decreasing government spending and increasing taxes

b) Decreasing government spending and decreasing taxes

c) Increasing government spending and increasing taxes

d) Increasing government spending and decreasing taxes

40. The concept of "liquidity trap" refers to a situation were

a) Interest rates are low, and monetary policy is ineffective

b) Interest rates are high, and monetary policy is ineffective

c) Interest rates are low, and fiscal policy is ineffective

d) Interest rates are high, and fiscal policy is ineffective

41. Which of the following is an example of an automatic stabilizer?

a) Expansionary monetary policy

b) Unemployment insurance benefits

c) Discretionary government spending

d) Tax cuts for high-income individuals

42. The term "crowding out" refers to a situation were

a) Government spending increases private investment

b) Private investment decreases due to government borrowing

c) The money supply increases due to government interventions

d) Government deficits lead to increased consumer spending

43. What is the primary goal of National Development Strategy 1?

a) Poverty reduction

b) Economic growth

c) Social inclusion

d) Environmental sustainability

44. An annual statement of the estimated receipts and expenditure of the government over the fiscal year is known as:

a) Budget

b) Income estimates

c) Account

d) Expenditure

45. The amount collected by the government as taxes and duties is known as:

a) Capital receipts

b) Non tax revenue receipts

c) Tax revenue receipts

d) All of these

46. Balance of Trade means:

a) Capital transaction

b) Import and export of goods

c)Total debit and credit

d)All the above

47. Which one is the visible item of Balance of Payments?

a) Machine

b) Cloth

c) Cement

d) All of these

48. 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

49.The goods which satisfy human wants directly are called:

a) Intermediate goods

b) Consumer goods

c) Capital goods

d) None of these

50.Net capital formation causes:

a) Increase in production capacity

b) Increase in depreciation

c) Increase in profits

d) Increase in cost

SECTION B (ANSWER ALL QUESTIONS)

Question 1

a. With the aid of diagram, explain how a proportionate increase in investment will translate into a move than proportionate increase in National Income **[10 marks]**

b. Consider the following information about a four-sector economy model is given:

(i) $C = 50 + 0.75Y_d$

(ii) $T = 15 + 0.25Y$

(iii) $M = 10 + 0.1Y$

(iv) $\bar{I} = 50$

(v) $\bar{G} = 200$

(vi) $\bar{X} = 140$

Where C is consumption; T is Tax, M are imports; $\bar{I}$, $\bar{G}$, and $\bar{X}$ are autonomous Investment, government and export expenditures respectively.

(a) Rewrite the linear consumption function in terms of Y **[2 marks]**

(b) Calculate the equilibrium level of income **[2 marks]**

(c) Show graphically the equilibrium level of national income using the expenditure approach. **[7 marks]**

(d) Calculate:

i. The tax increase multiplier **[2 marks]**

ii. The fiscal multiplier

(e) Calculate the budget balance and comment on your result. **[2 marks]**

SECTION C (CHOOSE ANY ONE QUESTION)

Question 1

Critically analyse challenges and opportunities that may arise from implementing NDS1, and propose strategies to overcome those challenges and maximize the potential benefits. **[25 marks]**

Question 2

Paying attention to Zimbabwean economy as much as possible, discuss the extent to which policy makers can depend on the elasticity approach in correcting the problem of BOP deficit. **[25 marks]**

Question 3

Several economists have argued that the increase in tax by the Ministry of Finance, Economic Development and Investment Promotion in its 2024 National Budget was ill-timed and could result in the overheating of the economy. As an Economist, critically analyse the potential implications of the increase in tax to the Government's four major macroeconomic objectives

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