

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ECONOMICS

EC107 (2) ECONOMIC PRINCIPLES 11

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 All questions in Section A and B
- (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 circular flow of goods and incomes shows the relationship between

- A). Wages and salaries
- B). Goods and services
- C). Income and money
- D). Firms and households

2. 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

3. 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 is the same with a tariff and a voluntary export restraint,

4. The use of automated teller machines (ATMs) has caused some bank tellers to lose their jobs. This is an example of

- A). Cyclical unemployment
- B). Seasonal unemployment,
- C). Frictional unemployment
- D). Technological unemployment

5. 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

6. Use the following table information to answer the following question:

Disposable Income (Y_d)	Consumption $C = C_a + MPC(Y_d)$ ($C_a = 100$)
\$800	\$820
900	910
1000	1000
1100	1090
1200	1180

What is the marginal propensity to save (MPS)?

- A). 0.10
- B). 0.20
- C). 0.25
- D). 0.90

7. A decrease in the reserves of commercial banks could be the result of

- A). An increase in the velocity of circulation
- B). The sale of government securities by the Reserve Bank
- C). A decrease in the velocity of circulation
- D). An increase in the required reserve ratio

7. 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

8. Unemployment due to the time it takes for unemployed people to locate a job utilizing their transferable skills is called _____ unemployment

- A). Structural
- B). Cyclical
- C). Natural
- D). Frictional

9. A balanced budget occurs when

- A). The national debt is reduced to zero dollars
- B). A budget deficit during one year is matched by a budget surplus in the next year
- C). Government expenditures equal tax receipts
- D). The deficit-GDP ratio equals one

11. If a person uses money to buy a pair of shoes, money is functioning as

- A). A unit of account
- B). A store of value
- C). A medium of exchange
- D). None of the above

12. Bank A has deposits of \$ 15000 and reserves of \$3,000 If the required-reserve ratio is 10 percent, the bank can lend

- A). \$ 15000
- B). \$ 1 500
- C). \$12000
- D). \$13500

13. The requirement of a "double coincidence wants" is the chief.....of the exchange system

- A). Advantage of barter
- B). Advantage of monetary
- C). Disadvantage of barter
- D). Disadvantage of monetary

14. The interest rate that a commercial bank pays when it borrows from the Reserve Bank is the rate

- A). Discount
- B). Exchange
- C). Reserve
- D). Bank

15. The Phillips curve describes the relationship between

- A). The federal 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

16. A recessionary gap occurs when

- A). Real GDP is less than potential GDP
- B). Nominal GDP is less than potential GDP
- C). High rates of inflation occur
- D). Nominal GDP is greater than potential GDP

17. Which of the following individuals would be classified as frictionally unemployed?

- A). A college graduate that has been offered two jobs but is still looking to see what other jobs might be available
- B). A restaurant manager that has been laid off because business is slow
- C). A construction worker that has been prevented from working due to bad weather
- D). An automotive industry worker that has been off because the autoworker's union is out on strike

18. When tax receipts exceed government expenditures during a single year the result is

- A). A structural deficit
- B). A budget deficit
- C). The national debt,

D). A budget surplus

19. A proportional or flat, tax system is one in which

- A). All taxpayers pay the same dollar amount in taxes, regardless of income,
- B). All taxpayers pay the same percentage of income in taxes, regardless of income
- C). The percentage of income paid in taxes starts out flat and then rises proportionately as income rises
- D). All government services can be purchased for a flat fee, regardless of income

20. Which type of unemployment would increase if workers lost their jobs because of a recession?

- A). Cyclical
- B). Frictional
- C). Seasonal
- D). Technological

21. What impact will a tariff have on imported goods?

- A). The tariff will make the goods more expensive domestically
- B). The tariff will make the goods cheaper domestically
- C). The tariff will encourage investment
- D). The tariff will decrease unemployment

22. Which policy tends to reduce the balance of payments deficit?

- A). An increase in import tariff
- B). A reduction in the level of interest rates
- C). A reduction in government spending
- D). A rise in the country's currency exchange rate

23. If the CPI is 100 in the base year and 127 in the current year, how much did prices rise between the two years?

- A). 27%
- B). 227%
- C). 127%
- D). 0.27

24. When the domestic prices of produced goods rises and the price of foreign-produced goods do not change the result is

- A). An increase in exports
- B). A decrease in exports
- C). A decrease in imports
- D). No change in imports or exports

25. 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

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

- A). Expansion
- B). Peak
- C). Recession
- D). Trough

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 \$1 00,000, 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). \$70000

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 security 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). Increase in money or wage rates or prices of raw materials
- B). Decrease in taxes
- C). Increase in Investment

D). Increase in taxes

36. In the context of government budget, which of the following statements is correct?

A). Budget is a statement of expected annual receipts and expenditures of the government

B). It is the detail of actual receipts and expenditures of the government in a financial year

C). It offers a detailed description of achievements of the government during the five-year plans

D). It indicates BOP status of the domestic economy

37. Which of the following is a part of expenditure in the government budget?

A). Interest payments

B). Defence purchases

C). Civil service wage bill

D). All of these

38. Deficit budget refers to that situation in which government's expenditure is

A). Less than its budget receipts

B). More than its budget receipts

C). Equal to its budget receipts

D). None of these

39. A budget is a balanced one when

A). Total expenditure = Total receipts

B). Total expenditure < Total receipts

C). Total expenditure > Total receipts

D). None of these

40. 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

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

EX0012

- A). Capital receipts
- B). Non tax revenue receipts
- C). Tax revenue receipts
- D). All of these

42. Balance of Trade means

- A). Capital transaction
- B). Import and export of goods
- C). Total debit and credit
- D). All the above

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

- A). Machine
- B). Cloth
- C). Cement
- D). All of these

44. Measures to improve adverse balance of payments include

- A). Currency devaluation
- B). Import substitution
- C). Exchange control
- D). All of the above

45. When the import and export of visible items are equal; the situation is known as

- A). Balance of trade
- B). Balance of payment
- C). Trade surplus
- D). Trade deficit

46. When there is a favourable balance of trade

- A). $X > M$
- B). $X < M$
- C). $X = M$

D). None of these

47. Structure of the balance of payments includes which account?

A). Current account

B). Capital account

C). Both A and B

D.) None 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 student on Work Related Learning (WRL) at The Reserve Bank of Zimbabwe (RBZ) under Economics Department recorded the following data:

	2021		2022		2023	
	Price (\$)	Quantity	Price (\$)	Quantity	Price (\$)	Quantity
Good A	30	900	31	1000	36	1050

Good B	100	192	102	200	100	205
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Using GDP deflator, calculate the rate of inflation for each year [12 marks]

b) Tables (i) and (ii) below show national income for Zimbabwe using the income and expenditure approaches respectively

(i) Income Method		(ii) Expenditure method	
National account		National account	
Exports- Imports	567	Expenditure by household	11896
Income from interest gained	4264	Expenditure by government and no profit organizations	3954
Other	1572	Investment spending	3342
GDP at factor cost	16264	Trade balance	324
Indirect cost less subsidies	2604	GDP at market prices	18868
GDP at market price	18866	Net Property income from abroad	60
Net Property income from abroad	60	GNP at market prices	18928
GNP at market prices	18928		

- (i) From the above Table (i), explain why GDP at market price is higher than GDP at factor cost [2 marks]
- (ii) From the above Table (i), explain why GNP at market prices differs from GDP at market prices [2 marks]
- (iii) What types of income have not been included in Table (i) when measuring GDP or GNP? [2 marks]
- (iv) From Table (ii), identify aggregate expenditure [2 marks]
- (v) From Table (ii), explain what contributions Exports-Imports is making in calculating GDP at market prices [3 marks]
- (vi) What type of expenditure have not been included in Table (ii) when measuring GDP or GNP? [2 marks]

SECTION B (CHOOSE ANY ONE QUESTION)

Question 1

Explain how civil wars, population growth and public policy decisions have contributed to hyperinflation and unemployment in Zimbabwe (invoke relevant examples). [25 marks]

Question 2

EX0012

Zimbabwe has been facing the problem of persistent Balance of Payments (BOP) deficits despite relentless efforts by the Authorities to arrest this problem. As an economist, what advice can you give to the authorities to solve this problem effectively? [25 marks]

Question 3

The 2024 SADC summit was held under the theme "Promoting Innovation to unlock opportunities for sustained economic growth and development towards an Industrialized SADC." In the context of Zimbabwe, analyse this assertion.

END