

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ECONOMICS

EC107 (1): 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 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**

SECTION A (ANSWER ALL QUESTIONS: TOTAL 50 MARKS)

1. Microeconomics is the study of a single unit or a single firm whereas the macroeconomics is

- (a). The study of national economy as a whole.
- (b). The study of regional economy as a whole.
- (c). International economics.
- (d). All of the above.

2. If your grandparents buy a newly built retirement home, this transaction would affect

- (a). Investment.
- (b). Net exports.
- (c). Government purchases.
- (d). Consumption.
- (e). None of these answers.

3. The Keynesian economics mainly focuses on

- (a). National income.
- (b). Equilibrium of the firm.
- (c). Allocation of the resources.
- (d). All of the above.

4. National income is equal to

- (a). Total employment.
- (b). Total unemployment.
- (c). Global employment.
- (d). Regional employment.

5. Consumption Function depends on

- (a). Size of income.
- (b). Propensity to consume.
- (c). Both a and b.
- (d). None of the above.

6. Which one of the following pairs is true?

- (a). Determination of Rate of Interest – By speculative motive.
- (b). Regulation of supply of money – By monetary authorities.

- (c). Determination of liquidity preference – By supply of money.
- (d). All of the above.

7. Which is true about the Rate of Interest?

- (a). Stable in the short run.
- (b). Unstable in short run.
- (c). Stable in long run.
- (d). Stable in mid to long run.

8. Which is true about Marginal Efficiency of Capital?

- (a). Stable in the short run.
- (b). Unstable in short run.
- (c). Stable in long run.
- (d). Stable in mid to long run.

9. Which is not a subject of macroeconomics?

- (a). GDP.
- (b). National income.
- (c). Budget constraints of a firm.
- (d). Inflation.

10. If nominal GDP in 2005 exceeds nominal GDP in 2004, then the production of output

- (a). Must have fallen.
- (b). Must have risen.
- (c). Must have stayed the same.
- (d). May have risen, fallen, or stayed the same because there is not enough information to determine what happened to real output.

11. Which one of the following pairs is true?

- (a). When the difference between MEC and R_i is lower... – Inducement is lower to invest.
- (b). When the difference between MEC and R_i is lower... – Inducement is higher to invest.
- (c). When the difference between MEC and R_i is higher... – Inducement is lower to invest.
- (d). When the difference between MEC and R_i is higher... – Inducement is higher to invest.

12. Which of the following would be excluded from Zimbabwe GDP for 2005?

- (a). A haircut.
- (b). The value of a lawyer's services.

(c). A 2005 Honda made in Swindon.

(d). All of things mentioned in these answers should be counted in 2005 GDP.

(e). A home built in 2004 and first sold in 2005.

13. Suppose the inflation rate over the last 20 years has been 10 per cent in the Zimbabwe, 7 per cent in Japan, and 3 per cent in the USA. If purchasing power parity holds, which of the following statements is true? Over this period,

(a). The value of the dollar should have fallen compared to the value of the pound and the yen.

(b). None of these answers

(c). The yen should have fallen in value compared to the pound and risen compared to the dollar.

(d). The value of the pound should have risen compared to the value of the yen and the dollar.

(e). The yen should have risen in value compared to the pound and fallen compared to the dollar.

14. Which of the following statements is not true about the relationship between national saving, investment, and net capital outflow?

(a) An increase in saving associated with an equal increase in net capital outflow leaves domestic investment unchanged.

(b) For a given amount of saving, an increase in net capital outflow must decrease domestic investment.

(c) For a given amount of saving, a decrease in net capital outflow must decrease domestic investment.

(d) Saving is the sum of investment and net capital outflow.

15. The two major components of macroeconomics are

(a). Products and income.

(b). Income and employment.

(c). Employment and unemployment.

(d). Society and income.

16. How do you determine the level of income and employment

(a). Aggregate demand.

- (b). Aggregate production.
- (c). Product value.
- (d). Market value.

17. If the nominal exchange rate between UK pounds and US dollars is 0.5 pound per dollar, how many dollars can you get for a pound?

- (a). 1.5 dollars
- (b). 0.5 of a dollar
- (c). 1 dollar
- (d). 2 dollars
- (e). none of these answers

18. In AD – AS model, the aggregate supply

- (a). Increases in long term.
- (b). Increases in short term.
- (c). Decreases in short term.
- (d). None of the above.

19. Phillips curve is a

- (a). Single equation economic model.
- (b). Double equation economic model.
- (c). Multi equation economic model.
- (d). Any of the above.

20. What happens when AS curve is horizontal?

- (a). Price level goes upside.
- (b). Price level is constant.
- (c). Price level goes downside.
- (d). None of the above.

21. The real money supply has

- (a). Negative effect on aggregate demand.
- (b). No effect on aggregate demand.
- (c). Positive effect on aggregate demand.
- (d). All of the above.

22. What impact does an increase in tax have on Aggregate Demand (AD?)

- (a). Negative effect on AD.
- (b). No effect on AD.

- (c). Positive effect on AD.
- (d). All of the above.

23. What happens when there is an increase in real balances?

- (a). Increase in equilibrium spending.
- (b). Increase in equilibrium income.
- (c). Both a and b.
- (d). None of the above.

24. The aggregate supply curve describes

- (a). It is the quantity of input which a firm plan to supply for each given price level.
- (b). It is the quantity of output which a firm plan to supply for each given price level.
- (c). Both a and b.
- (d). None of the above.

25. A classical aggregate supply curve includes

- (a). Short run aggregate supply curve.
- (b). Horizontal long run aggregate supply curve.
- (c). Constant aggregate supply curve.
- (d). All of the above.

26. If the curve of aggregate demand is downward, then output is demanded at lower price levels

- (a). There is more output at lower price levels.
- (b). There is less output at lower price levels.
- (c). There is constant output at lower price levels.
- (d). None of the above.

27. Which is not a consideration of macroeconomic theory?

- (a). Phenomena of output.
- (b). Unemployment.
- (c). Inflation.
- (d). Labour wedges.

28. The macroeconomic output is commonly measured by

- (a). GDP.
- (b). National income.
- (c). Both a and b.
- (d). None of the above.

29. A declining economy may lead to

- (a). Deflation.
- (b). Inflation.
- (c). Both a and b but at different times.
- (d). None of the above.

30. Generally, is used to implement macroeconomic policy

- (a). Fiscal policy.
- (b). Monetary policy.
- (c). Both a and b.
- (d). None of the above.

31. What is the role of fiscal policy?

- (a). It stabilizes the economy.
- (b). It stabilizes the problem of unemployment.
- (c). Both a and b.
- (d). None of the above.

32. What is the role of monetary policy?

- (a). It stabilizes the money.
- (b). It stabilizes the problem of unemployment.
- (c). Same as fiscal policy.
- (d). None of the above.

33. Who implements monetary policy in Zimbabwe?

- (a). Gramin bank.
- (b). State Bank of Zimbabwe
- (c). Prof Mhtuli Ncube.
- (d). Central Bank of Zimbabwe.

34. Fiscal policy is the use of revenue and expenditure?

- (a). Government's.
- (b). Private organisation.
- (c). Public-private firms.
- (d). All of the above.

35. Taxes and debts are the tools of

- (a). Incomes policy.
- (b). Monetary policy.

- (c). Supply-side economics.
- (d). Fiscal policy.

36. The consumer price index is the measure of

- (a). Investment cost.
- (b). Living cost.
- (c). Expenses cost.
- (d). All of the above.

37. An economy that interacts with other economies is known as

- (a). An export economy.
- (b). A friendly economy.
- (c). An open economy.
- (d). A balanced trade economy.
- (e). An import economy.

38. Each of the following is a reason why international trade has expanded in recent decades except which one?

- (a). Technological improvements have meant that countries have become more similar in terms of the goods they can produce.
- (b). Many new high technology goods have been introduced for which the cost of transport relative to the value of the product is low.
- (c). There have been improvements in technology that have improved telecommunications between countries.
- (d). Policy makers have promoted policies to increase international trade, such as the General Agreement on Tariffs and Trade, and subsequently established the World Trade Organization.
- (e). Larger cargo ships and Aeroplan's have reduced the cost of transporting goods.

39. Which of the following statements is true about a country with a trade deficit?

- (a). Net exports are negative.
- (b). Net capital outflow must be positive.
- (c). Exports exceed imports.
- (d). Net exports are positive.

(e). none of these answers

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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:

- (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). A 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

- (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 (ANSWER ALL QUESTIONS)

Question

A student on Work Related Learning (WRL) at The Reserve Bank of Zimbabwe (RBZ) under Economics Department record 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

a) Use the above table to answer the following questions:

- i). Compute nominal GDP for each year [3 marks]
- ii). Compute real GDP for each year using 2021 as the base year [4 marks]
- iii). Using GDP deflator, calculate the rate of inflation for each year [8 marks]

b) Bindura University Economics Department records the following figures during their 20023 survey.

Item	Price in Base Year	Price in Current Year	Weight
Food	300	600	5
Clothing	50	250	3
Transport	10	5	2
Total			10

Use the above Table, calculate the rate of inflation.

[10 marks]

SECTION C (CHOOSE ANY ONE QUESTION)

Question 1

Investment and output are linked. Discuss the extent to which changes in output cause changes in investment and changes in investment cause changes in output [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

Examine the relevance of the Marshall-Lerner Condition, crowding out effect and multiplier concept to its corresponding macroeconomic policies that can be adopted by a government. [25 marks]

END