



FACULTY OF BUSINESS SCIENCES AND MANAGEMENT

DEPARTMENT OF ACCOUNTING

BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING

PART I SECOND SEMESTER EXAMINATION

MACROECONOMICS [BA1205]

MAY 2022

DURATION: 3 HOURS

LECTURER: MR R. MUNERI

INSTRUCTIONS

1. Answer any four questions
2. Begin your answer to each question on a new page.
3. Please indicate the study format (Conventional/Block/Parallel) on the cover of your answer script.

INFORMATION

1. Marks per question are as indicated.
2. Questions may be attempted in any order.

This paper consists of four printed pages including the cover page

ANSWER ANY FOUR QUESTIONS

QUESTION 1 (25 Marks)

- a) What are the main justifications for government intervention in an economy **(8 Marks)**
- b) Just like markets, governments also fail. Explain the main causes of government failure. **(7 Marks)**
- c) The minister of finance wants to draft and come up with a tax system to be used in Zimbabwe. You are asked to write a note of advice to him. Explain what you advice would be and what considerations would you advise him to take note of. **(10 Marks)**

QUESTION 2 (25 Marks)

- a) Explain the forms of market failure that justifies government intervention in an economy **(8 Marks)**
- b) Define the following terms:
 - i. Privatisation **(2 Marks)**
 - ii. Commercialisation **(2 Marks)**
 - iii. Nationalisation **(2 Marks)**
- c) Explain what is meant by term “ a proportional tax system”. **(2 Marks)**
- d) Explain the criteria for a good tax system. **(9 Marks)**

QUESTION 3 (25 Marks)

- e) Why do countries trade? (6 marks)
- f) Suppose the world consist of two countries A and B, which produce some combination of two goods, good X and Y. The table below shows the maximum output that each country can produce.

	Country A	Country B
Good X	100	250
Good Y	50	200

- i. Which country has an absolute advantage in Good X and Y production? **(2 Marks)**
 - ii. Compute the relative costs/ opportunity cost of production of the two goods in both countries **(8 Marks)**
 - iii. Which country has a comparative advantage in production of good X and good Y **(2Marks)**
 - iv. What should be the trade prices for good X and Y **(2 Marks)**
- g) Name any 5 reasons why countries restrict trade **(5 Marks)**

QUESTION 4 (25 Marks)

- a) List any 3 macro-economic objectives **(3 Marks)**
- b) Given that the consumption function is given by $C=200+0.8Y$
 - i. Draw a Keynesian diagram to represent this consumption function **(3 Marks)**
 - ii. Identify induce consumption, autonomous consumption and the marginal propensity to consume from the consumption equation **(3 Marks)**
 - iii. Derive the savings function **(3 Marks)**
- c) Given the following information

$G=200, I= 100, C=200+0.8Y$

 - i. What is the multiplier for this economy **(2 Marks)**
 - ii. Calculate the equilibrium level of income **(5 Marks)**
 - iii. By how much should government increase its expenditure reach full employment income of \$3000? **(5 marks)**

QUESTION 5 (25 Marks)

- a) What is money? **(2 Marks)**
- b) According to the Keynesian theory, explain the motives for money demand? (In your answer, highlight the main determinants of money demand for each motive) **(6 Marks)**
- c) Discuss the role of the Reserve Bank of Zimbabwe in the Zimbabwean financial market **(8 Marks)**
- d) Explain how any three monetary policy tools can be used by monetary authorities to achieve macroeconomic objectives **(9 Marks)**

END OF EXAMINATION PAPER

GOOD LUCK!