



FACULTY OF BUSINESS SCIENCES AND MANAGEMENT

DEPARTMENT OF ACCOUNTING

BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING

PART I SECOND SEMESTER EXAMINATION

MACRO-ECONOMICS [BAC1204]

APRIL 2024

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) 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 (4) printed pages including the cover page

ANSWER ANY FOUR QUESTIONS

QUESTION 1 (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)**

QUESTION 2 (25 Marks)

- a) Given that the consumption function is given by $C = 400 + 0.8Y$
- Derive the Savings equation. **(3 Marks)**
 - Identify the marginal propensity to save. **(1 Mark)**
 - What other factors, beside income, affect consumption expenditure? **(4 Marks)**
- b) Study the following information about aggregate expenditure components in a closed economy, and answer the questions that follow.

$$G = 200, I = 100, C = 400 + 0.8Y, t = 0.2$$

- What is the multiplier for this economy? **(2 Marks)**
- Calculate the equilibrium level of income. **(5 Marks)**
- Sketch how the Keynesian diagram is used to determine equilibrium income using this information. **(5 Marks)**
- If government expenditure increase by \$100, by how much would equilibrium income increase? **(5 Marks)**

QUESTION 3 (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, Economic Development and Investment Promotion wants to draft and come up with a tax system to be used in Zimbabwe. Advise the minister on the considerations of a good tax system. **(10 Marks)**

QUESTION 4 (25 Marks)

- a) Distinguish between direct and an indirect method of exchange rate quotation, giving examples. **(2 Marks)**
- b) With the aid of a diagram, explain how the exchange rate is determined in the foreign exchange market without government intervention. **(6 Marks)**
- c) What measure can be taken by developing countries to promote trade with the rest of the world? **(9 Marks)**
- d) What are the main arguments for trade restrictions? **(8 Marks)**

QUESTION 5 (25 Marks)

- a) Why do countries trade? **(6 Marks)**
- b) 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? **(2 Marks)**
- iv. What should be the trade prices for good X and Y? **(2 Marks)**
- c) Name any 5 reasons why countries restrict trade. **(5 Marks)**

END OF EXAMINATION PAPER

GOOD LUCK!