



# MANICALAND STATE UNIVERSITY OF APPLIED SCIENCES

**FACULTY OF AGRIBUSINESS AND COMMERCE**

**Department of Accounting**

**PRINCIPLES OF MACROECONOMICS**

**CODE: ECON 121**

**SESSIONAL EXAMINATIONS**

**AUGUST 2022**

**DURATION: 3 HOURS**

**EXAMINER: MR F. RUZHANI**

## ***INSTRUCTIONS***

- 1. Answer any Four (4) questions.*
- 2. Start a new question on a fresh page*
- 3. Total marks 100*

### Question 1

- a) With reference to an example explain the role of assumptions in macroeconomics [5]
- b) With the aid of a Production Possibility Curve explain the concept of pareto efficiency and economic growth. [10]
- c) *The consumer price index (CPI) is computed each month and is used to monitor changes in the cost of living over time.* Identify and describe five steps to follow when determining CPI. [10]

### Question 2

*Gross Domestic Product (GDP) is a useful indicator of a nation's economic performance and the economic well-being of its citizens.* With reference to examples to what extent do you agree with this statement? [25]

### Question 3

- a) *Taxes on interest income substantially reduce the future pay off from current investment and, as a result, reduce the incentive to invest.* With the aid of a graph explain the effects of a tax cut on returns to investment on interest rate and the supply and demand for loanable funds. [8]
- b) Using an Aggregate Demand-Aggregate Supply model explain the effect of a decrease in government spending on goods and services on output and the general price level in the economy. [6]
- c) With the aid of a graph explain how efficiency wages result in structural unemployment. [8]
- d) Describe any **three** causes of hyperinflation in Zimbabwe. [3]

### Question 4

- a) *Fiscal policy refers to the government's decisions about how much to tax and spend.* With the aid of a graph explain the effects of a contractionary fiscal policy on aggregate demand, supply and the general price level of goods and services. [10]
- b) Explain what you understand by the following terms.
  - i) Budget deficit [2]

- ii)** Budget surplus [2]
- c)** In your opinion what is more desirable between a budget surplus and a budget deficit. Justify your answer. [6]
- d)** With the aid of a Phillips curve explain the short run relationship between unemployment and inflation. [5]

**Question 5**

- a)** Economists argue that fiscal policy makers should aim to reduce government debt. Justify the reasons for and against this notion. [12]
- b)** Discuss the policies that a government can implement in order to improve the standards of living of its citizens. [9]
- c)** Explain what you understand by the following terms.
  - i)** Stagflation [2]
  - ii)** Hyperinflation [2]

**END OF EXAMINATION**