



HEBERT CHITEPO SCHOOL OF LAW AND BUSINESS SCIENCES

DEPARTMENT OF ECONOMICS & FINANCE

BACHELOR OF COMMERCE DEGREE

LEVEL 2 SEMESTER 2

EXAMINATION QUESTION PAPER

MODULE CODE

HEC221

MODULE NARRATION

MACROECONOMICS 1

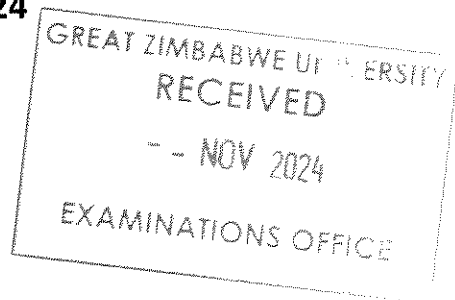
DATE

2024

DURATION

INSTRUCTIONS TO CANDIDATES:

1. Answer any four questions
2. Start each question on a fresh page
3. Silent self-powered non-programmable calculators can be used
4. All questions carry equal marks



QUESTION 1

- (a) Discuss the pull of instant gratification and how it affects consumption. [5 marks]
- (b) With the aid of algebraic expressions and graphs derive and explain the Life Cycle Hypothesis (LCH). [10 marks]
- (c) With the aid of indifference curves and budget constraint explain the consumer's point of optimisation between first period and second period consumption. [10 marks]

[Total 25 marks]

QUESTION 2

- (a) Explain what you understand by the following theories of Investment;
- (i) Accelerator model [3marks]
 - (ii) Adjustment cost approach [3 marks]
 - (iii) Tobin's q theory. [4 marks]
- (b) Assume that investment and savings for Zimbabwe are given by the following equations:
 $I = 50 - r$ and $S = 4r$.
- (i) Assuming that the Zimbabwean economy is closed, what are the equilibrium levels of interest rate, savings, investment and the current account? [15 marks]

[Total 25 marks]

QUESTION 3

- (a) Explain the following terms as used in macroeconomics;
- (i) Monetary transmission mechanism [8 marks]
 - (iii) Classical dichotomy and money neutrality. [8 marks]
- (b) Derive the Fisher Equation and explain its implications for monetary policy. [9 marks]

[Total 25 marks]

QUESTION 4

- (a) With the aid of algebraic expressions and graphs derive and explain the IS and LM curves. [15 marks]
- (b) Using the IS-LM framework, derive and explain the AD curve. [10 marks]

[Total 25 marks]

QUESTION 5

(a) Assuming that Zimbabwe is a hypothetical small closed economy with the following macroeconomic status for 2020;

Autonomous consumption is 200

Government spending = taxes = 100

The investment function is $I = 200 - 25r$

The money demand function is $\left(\frac{M}{P}\right)^d = Y - 100r$

Money supply is 1000 and the price level is 4

- (i) Derive the equations for the IS curve and the LM curve. [6 marks]
- (ii) Find the equilibrium interest rate. [4 marks]
- (iii) Compute the equilibrium level of income. [3 marks]

(b) Using the IS-LM framework, explain the short-run and long-run effects of an increase in government expenditure on the following macroeconomic variables;

- (i) Income (Y) [4 marks]
- (ii) Interest rate [r] [4 marks]
- (iii) Price level (P). [4 marks]

[Total 25 marks]

END OF EXAMINATION