ZIMBABWE

MINISTRY OF HIGHER AND TERTIARY EDUCATION, SCIENCE AND TECHNOLOGY DEVELOPMENT

HIGHER EDUCATION EXAMINATIONS COUNCIL (HEXCO)

NATIONAL DIPLOMA

IN

BANKING AND FINANCE

SUBJECT: Applied Economics **PAPER NO: 524/S09**

DURATION: 3 Hours

OCTOBER / NOVEMBER 2014 EXAMINATION

REQUIREMENTS

INSTRUCTIONS TO CANDIDATE

1. **Answer any four questions.**
2. **All questions carry equal marks.**

PAPER NO: 524/S09 – APPLIED ECONOMICS

QUESTION 1

Consider the following standard macroeconomic model for determining national income in a closed economy.

(1) $Y = C + I$
(2) $C = f(Y)$

a) Suppose first that $C=f(Y) = 95.05 + 0.712Y$

Find the change in Y (ΔY) if I is changed. (10 marks)

b) Equation (1) and (2) define Y as a differentiable function of I. Find an expression for dY/dI. (15 marks)

QUESTION 2

Suppose that the relationship between gross income Y and total income tax T is for tax payers with incomes between 80,00 and 120,000. The following values for the constants were estimated, given by the equation.

$T = a(bY =c)^p + Ky$

Where a, b, c, p and k are positive constants.

Required

a) Find an expression for the marginal tax rate, dT/dY. (15 marks)

b) In an empirical study, $a = 0.000338$; $b = 0.81$; $c = 6467$; $p = 1.61$
$k = 0.053$

Use these numbers to find the values of T and dT/dY when $Y = 100, 000$. (10 marks)

QUESTION 3

a) Explain money creation process. (5 marks)

b) You are given the following data below;

Volume of transactions in a year \$50 000; circulation rate of currency 0.8; price levels \$6.

Determine money supply in the economy. (10 marks)

c) Discuss the criticisms of the money supply model according to monetarists. (10 marks)

QUESTION 4

Discuss monetary policy instruments at the disposal of monetary authorities. (25 marks)

QUESTION 5

a) Discuss the purpose of holding reserves by a government. (15 marks)

b) Identify and explain factors that are key in the setting of the target for the reserve stock. (10 marks)

QUESTION 6

a) Discuss the validity of arguments for trade protectionism (10 marks)

b) Justify merger activities in Zimbabwe. (10 marks)

QUESTION 7

Discuss five (5) obstacles to efficient allocation of economic resources. (20 marks)

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