

SIR ARTHUR LEWIS COMMUNITY COLLEGE
DIVISION OF TECHNICAL EDUCATION AND MANAGEMENT STUDIES

EXAMINATION SESSION : May, 2001 Final Examination #MS

TUTORS : Ms L Phillips, Mrs F Beerom-Henry,
Mr S Auguste, Ms Persad

PROGRAMME TITLE : Business Studies – Applied Arts, Diploma
Management Studies – Applied Arts

PROGRAMME CODE : ABS 343, BUS 351, MAN 327

COURSE TITLE : Introduction to Macroeconomics – Paper II

COURSE CODE : MAC 311

CLASS(ES) : Year 1

DATE : Friday 11 May, 2001

TIME : 9.00 – 11.30 a.m.

DURATION : 2 1/2 hrs

ROOM(S) : Lecture Theatre, DHS R.3

INVILGILATOR(S) : Mrs F Beerom-Henry, Mr F Ephraim,
Ms M L Catty, Ms L Phillips,
Mrs S Finisterre

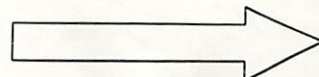


INSTRUCTIONS

1. **Section A** – Answer all questions.
Show all workings clearly.
2. **Section B** – Answer any two (2) complete questions.
3. Begin each question on a new sheet of foolscap paper.
4. Borrowing or lending is prohibited.



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SECTION A - DATA RESPONSE

INSTRUCTIONS: Answer all questions in this section.
Show all necessary workings clearly.

Question 1

The following data has been provided for Country X.

	\$(millions)
Government subsidies	170
Factor payments from abroad	450
Personal income taxes	400
Exports	200
Indirect taxes	350
Personal consumption expenditure	1,800
Imports	350
Transfer payments	100
Business taxes	270
Gross domestic investment	450 ✓
Factor payment to abroad	300
Undistributed surplus	220
Capital consumption allowance	165 ✓
Gross domestic product (market prices)	4,000

- a) Which approach to measuring national income is most suitable to be used based on the above data? (1 mark)
- b) Calculate the following:
- i) Net investment (1 marks)
 - ii) National income at factor cost (8 marks)
 - iii) Personal income (5 marks)
 - iv) Disposable income (2 marks)
- [Total: 20 marks]**

Question 2

(Use the space provided to answer this question).

- a) A firm needs capital equipment twice as large in dollar values as its annual volume of sales in order to operate profitably. Additionally, ten percent of the firm's existing capital stock wear out each year and is replaced. *Complete the following table.*

<i>Year</i>	<i>Sales</i> \$m	<i>Changes in Sales</i> \$m	<i>Required Stock of Capital</i> \$m	<i>Net Investment</i> \$m	<i>Gross Investment</i> \$m
1990	15			0	
1991	20				
1992	24				
1993	25				
1994	26				
1995	27				
1996	27				
1997	25				

(12 marks)

- b) Identify the following according to whether they are components of aggregate expenditure (C, I, G, X, M), factor payments (F), withdrawals (W), injections (J), or none of these (N). *An item is done as an explanatory example.*

<i>Eg.</i>		Aggregate Expenditure or Factor Payment F	Withdrawal or Injection W
	<i>Undistributed profit</i>	-----	-----
i)	Construction of Millennium Highway	-----	-----
ii)	Car hired by tourist	-----	-----
iii)	Residential construction	-----	-----
iv)	Legal advice from solicitor	-----	-----
v)	Environmental levy	-----	-----
vi)	Your holiday in Florida	-----	-----
vii)	Building of four new primary schools	-----	-----
viii)	Changes in inventories	-----	-----

(8 marks)

[Total 20 marks]

Question 3

You are provided with the following information about an open/modern economy.

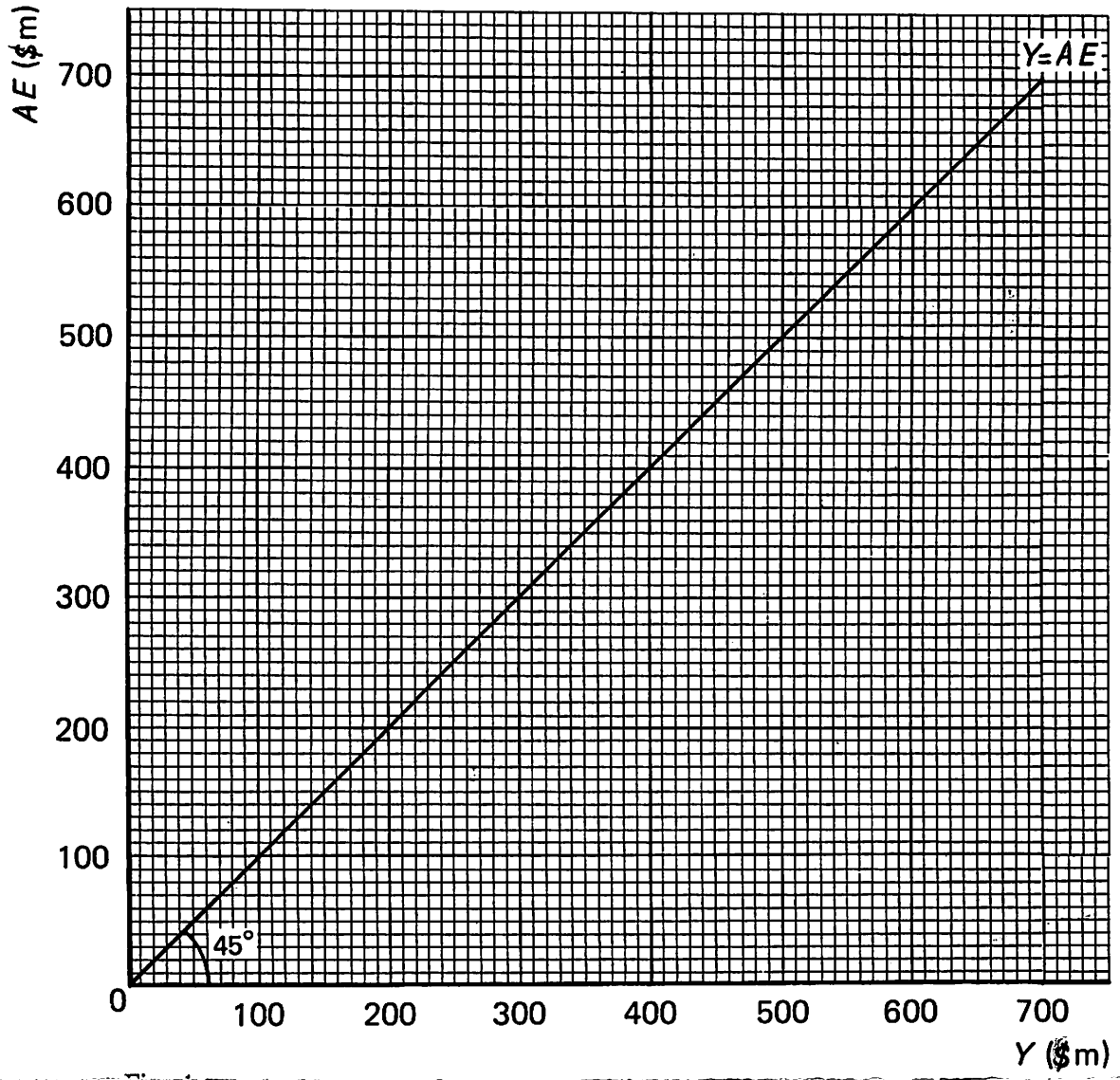
$$\begin{aligned}T &= 0.25Y \\G &= \$70m \\I &= \$75m \\C &= \$40m + 0.8 Y_d \\X &= \$25m \\M &= 0.1Y\end{aligned}$$

- a) Determine the household's break even level of income. **(1 marks)**
- b) On the grid provided, graphically determine the equilibrium level of national income using the output-expenditure method. **(3 marks)**
- c) Algebraically determine the equilibrium level of national income using the injection-withdrawal method. **(4 marks)**
- d) Determine the size of the multiplier. **(2 marks)**
- e) At the equilibrium level of income, what is the type and size of the government's budget? **(3 marks)**
- f) Assume that full employment income is \$500m. Determine whether there is an inflationary or deflationary gap. What is the size of this gap? **(4 marks)**
- g) It is the government's desire to close the gap identified in part f).
- i. By how much should its level of government spending change?
- ii. By how much should its tax revenues change?

(3 marks)

[Total 20 marks]

Use the following to answer Question 3 b)



SECTION B – ESSAYS

INSTRUCTIONS: Answer any two (2) complete questions in this section.

4. a) With the use of diagrams, differentiate between an inflationary gap and a deflationary gap. (10 marks)
- b) Discuss four (4) uses of national income statistics. (10 marks)
5. a) With the aid of diagram, describe the circular flow of income and spending in a 3-sector economy. (10 marks)
- b) Explain five (5) characteristics of any *two* phases of a typical business/trade cycle. (10 marks)
6. Contrast the Classical and Keynesian views on the running of the economy. (20 marks)
7. a) If it were possible for government to raise all its revenue by levying just one type of tax (direct or indirect) would it be desirable. Discuss. (10 marks)
- b) With the aid of diagram, explain the paradox of thrift and highlight the role the multiplier plays in the paradox. (10 marks)
8. a) Explain how discretionary fiscal policy can be used to alleviate disequilibrium in the economy. (8 marks)
- b) Explain the accelerator theory of investment. (6 marks)
- c) Discuss three (3) criticisms levelled against the accelerator theory. (6 marks)

END OF EXAMINATION