

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

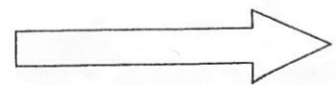
EXAMINATION SESSION : December 2005, Final Examinations
TUTORS : F. Beerom-Henry, L Phillips,
E. Ermay
PROGRAMME TITLE : Associate Degree - Business
Administration
PROGRAMME CODE : 3BS-ABA-AD
COURSE TITLE : **Macroeconomics**
COURSE CODE : **ECO103** #M28
CLASS(ES) : Year 2
DATE : **Friday, 9 December 2005**
TIME : 9:00 am
DURATION : 2 1/2 hrs
ROOM(S) : CEHI-1H-02, CEHI-1R-02
INVILGILATOR(S) : L. Phillips, F. Beerom-Henry,
N. Goolaman, E. Ermay

INSTRUCTIONS

Section I - Answer **ALL** questions in this section.
Use space provided where appropriate.

Section II - Answer **ANY ONE (1)** complete question from this section.

Borrowing or lending is prohibited.



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SECTION I

Instruction: Answer ALL questions in this section.
USE THE SPACE PROVIDED WHERE APPROPRIATE.

Question 1

(A) Study the data below then answer the following questions on the basis of Zodiac's Balance of Payments for 2004. All figures are in billions of dollars.

Reserve assets (decrease)	\$ 7
Merchandise imports	60
Net investment Income	(10)
Service exports	30
Net current transfers	20
Capital inflows	25
Capital outflows	80
Service imports	22
Merchandise exports	90

- i) What is the Balance of Trade (Visible)? _____
- ii) What is the balance on the current account? _____
- iii) What is the balance on the capital account? _____
- iv) Does Zodiac have a Balance of Payments deficit or surplus? _____

(9 marks)

(B) Suppose that one unit of input can produce the following units of output in Martinique and Barbados.

	<u>Wine</u>	or	<u>Cloth</u>
Martinique	150		300
Barbados	100		100

- i) Which country has absolute advantage in the production of which commodity? _____
- ii) Which country should specialize in wine production? Explain why and show workings clearly. _____

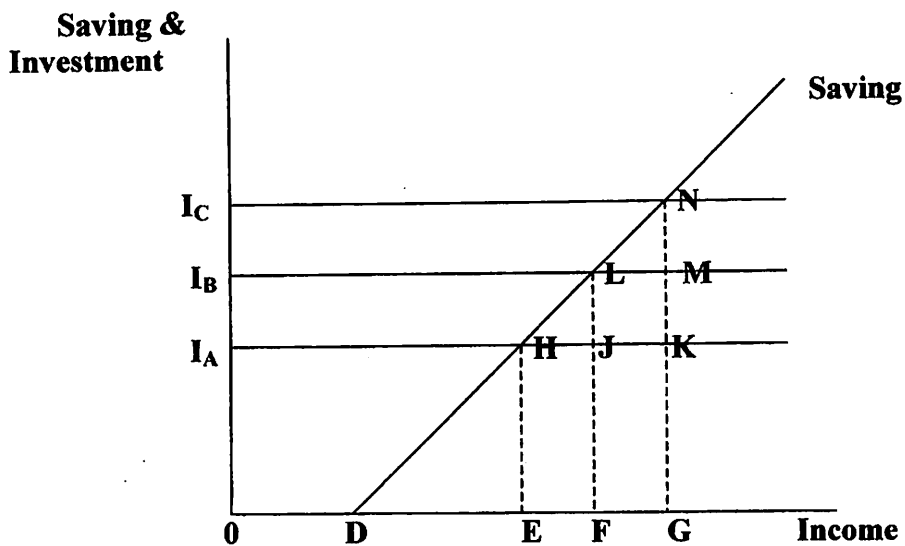
- iii) Which country should specialize in cloth production? Explain why and show workings clearly. _____

(7 marks)

[Total 16 marks]

Question 2

- (A) The figure below shows autonomous investment levels for an economy, together with the saving function to demonstrate how saving varies with income. I_B is the initial level of investment.



- i) Identify the initial equilibrium level of income and saving. _____
- ii) Which level of investment represents the effect of an increase in business confidence? _____
- iii) What is the new equilibrium level of income based on part ii)? _____
- iv) Using symbols, indicate how the multiplier would be obtained based on the diagram above. _____
- v) What level of investment shows an increase in pessimism in the parts of firms? _____
- vi) What is the new equilibrium level of income based on part v)? _____

(10 marks)

(B) $C = 22 + 0.6Y$ $I = 30$

Use the information above about a simple economy to answer the following questions.

- i) Determine the APS when income is \$220. _____
- ii) What is the household's breakeven level of income? _____
- iii) What is the equilibrium level of income? _____
- iv) What is the size of the multiplier? _____
- v) Use multiplier analysis to determine equilibrium NI if investment decreases by 12 and simultaneously, autonomous consumption increases to 42. _____

(10 marks)
{Total 20 marks}

Question 3

(A) Study the following data.

	\$m
Consumers' spending	234,167
Capital consumption allowance	46,004
Gross domestic fixed capital formation	64,227
General government final consumption	79,423
Value of physical increase in stocks and work-in-progress	551
Taxes on spending	62,273
Imports of goods and services	101,308
Subsidies	55,806
Export of goods and services	97,835
Net property income from abroad	4,686

- i) What method should be applied to the data above to prepare the national income account?
- ii) Prepare the national income account showing clearly the value of each of the following:
 - a) Gross Domestic Product at market prices
 - b) Gross Domestic Product at factor cost
 - c) Gross National Product at factor cost
 - d) National Income

(14 marks)

(B) i) Complete the following table which pertains to the value of bread that is ultimately sold to a household.

<i>Stage of Production</i>	<i>Selling Price to next stage (\$m)</i>	<i>Value Added (\$m)</i>
Farmers	30	-----
Millers	55	-----
Bakers	90	-----
Supermarkets	100	-----

ii) What value should be included in national income statistics for bread?

(6 marks)
[Total 20 marks]

Question 4

Match the following lettered terms on the left with the appropriate numbered descriptions on the right.

- | | |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------|
| ----- A. Appreciation | 1. Systematic records of all transactions between residents of one country and the rest of the world. |
| ----- B. Liquidity | 2. The direct regulation of wages. |
| ----- C. Legal Tender | 3. The ratio of the change in equilibrium output to the change in autonomous spending that causes the change in output. |

- | | | |
|------------------------------|-----|----------------------------------------------------------------------------------------------------------------------------------------------|
| ----- D. Store of Value | 4. | An increase in the value of goods as a the production process. |
| ----- E. Fiscal Policy | 5. | A rise in the international value of a |
| ----- F. Per Capita Income | 6. | Any asset or wealth set aside for fu |
| ----- G. Money Supply | 7. | The rate at which units of one product can be exchanged for units of another product as measured by the indexes of export and import prices. |
| ----- H. Closed Economy | 8. | Anything that a government has decided must be accepted in payment of a debt. |
| ----- I. Budget Deficit | 9. | Changes in money supply to assist the economy to achieve a full employment, noninflationary level of total output. |
| ----- J. Induced Consumption | 10. | A payment of funds by a government to business firms or households for which it receives no goods or services in return. |
| ----- K. Incomes Policy | 11. | GNP divided by total population. |
| ----- L. Balance of Payments | 12. | Exports exceed imports. |
| ----- M. Multiplier | 13. | Income available for spending and saving. |
| ----- N. Market Prices | 14. | Speed and certainty with which an asset can be converted into money. |
| ----- O. Transfer Payments | 15. | A way of valuing domestic output inclusive of indirect taxes and subsidies on goods and services. |
| ----- P. Trade Surplus | 16. | The excess of government outlays over government receipts. |
| ----- Q. Terms of Trade | 17. | The part of consumption expenditure related to the level of income. |
| ----- R. Disposable Income | 18. | Value of stock of money the medium of exchange, in circulation. |
| ----- S. Value Added | 19. | Government decisions about spending and taxes. |
| ----- T. Monetary Policy | 20. | An economy which does not transact with the rest of the world. |

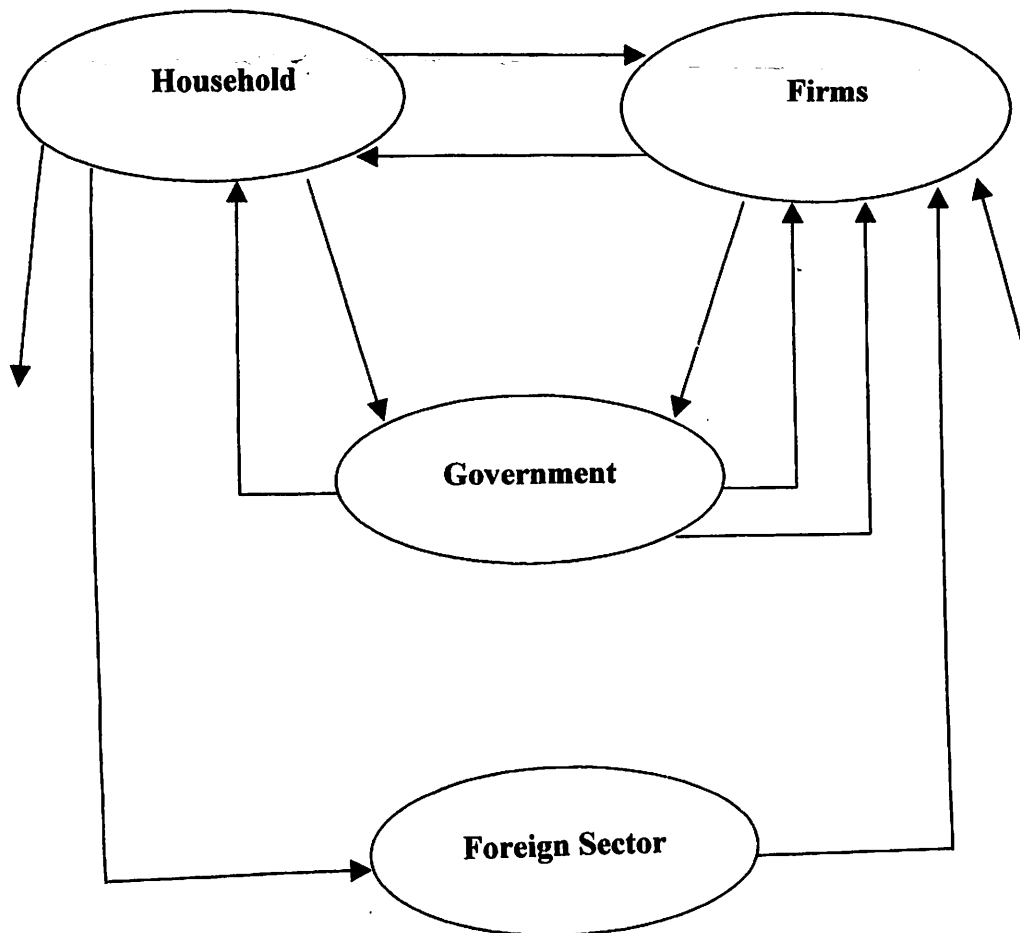
[10 marks]

Question 5

You are given the following information about financial flows for Country Utopia during a certain year.

a)	Savings by domestic households	\$m
b)	Exports sold to foreigners	200
c)	After tax income for factor services	120
d)	Investment expenditures	640
e)	Import purchases by domestic households	140
f)	Total taxes paid to government	80
g)	Payment by domestic households for goods and services	440
h)	Government expenditure on goods and services	60

- i) List the items above that represent injections into the circular flow and calculate the value of total injections. (3 marks)
- ii) List the items above that represent withdrawals from the circular flow and calculate the value of total withdrawals. (3 marks)
- iii) Indicate the proper location on the Circular Flow diagram below for each of the financial flows listed above. Use the letters a) – h) to identify the respective flow. (8 marks)



[Total 14 marks]

SECTION II

Instructions: Answer ANY ONE (1) complete question from this section.

6. A) Define unemployment. (2 marks)

B) Discuss the causes of each of the following types of unemployment:
i. Real wage
ii. Cyclical
iii. Structural
iv. Frictional (12 marks)

C) Suggest at least ONE (1) remedy for each type of unemployment discussed in part (B). (6 marks)

[Total 20 marks]

7. A) Explain four (4) effects of unanticipated inflation (8 marks)

B) Explain four (4) functions of a Central Bank (or the ECCB). (8 marks)

C) Describe four (4) factors that influence the level of consumption. (4 marks)

[Total 20 marks]

8. A) Identify FOUR (4) characteristics of money. (4 marks)

B) Discuss FOUR (4) uses and FOUR (4) limitations of national income statistics. (16 marks)

[Total 20 marks]

END OF EXAMINATION

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