

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

EXAMINATION SESSION : December 2007 Examination  
TUTOR (S) : Ms. D. Persaud, Ms. L. Phillips, Mr. M. Rene  
PROGRAMME TITLE : Applied Arts – Business Studies  
PROGRAMME CODE : 3BS-ABA-AD  
COURSE TITLE : Macroeconomics  
COURSE CODE : ECO103  
CLASS (ES) : Year 2  
DATE : Monday 10<sup>th</sup> December, 2007  
COMMENCEMENT TIME : 9:00 a.m.  
DURATION : 2 hours thirty minutes  
INVIGILATOR (S) : Ms. E. Louisy Ms. ML. Catty  
Ms. F. Paul Mr. F. Ephraim  
Ms. U. Joseph  
Mrs. L. Lashley  
ROOM (S) : CEHI-1H-02  
OTW R3

#M31



**INSTRUCTIONS:**

Section A – Answer **ALL** questions in this section.  
Use spaces provided where appropriate.

Section B – Answer **ONE (1)** complete question from this section.

**Borrowing or lending is prohibited.**

- ◆ Students are advised to use a pen to write this examination
- ◆ Write your ID Number on *each* answer sheet
- ◆ All cell phones must be turned off during the examination
- ◆ **Note:** Bags, books as well as writing paper not given by the invigilator should be deposited at the front of the examination room or as otherwise indicated.
- ◆ Students must sign **IN** and **OUT** on the examination class list

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STUDENT ID NUMBER									

**SECTION A**

**Instructions:** There are *four* questions in this section. Candidates are required to answer *All* questions. Where spaces are provided candidates *must write in those spaces*.

1. 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).

		Aggregate Expenditure OR Factor Payment	Withdrawal OR Injection (W or J)
e.g.	a) Construction of highway	G	J
	b) Undistributed Profits	_____	_____
	c) Residential Construction	_____	_____
	d) Vacation in Paris	_____	_____
	e) Building of new schools by government	_____	_____
	f) Advice from an attorney	_____	_____
	g) Car hired by tourist	_____	_____

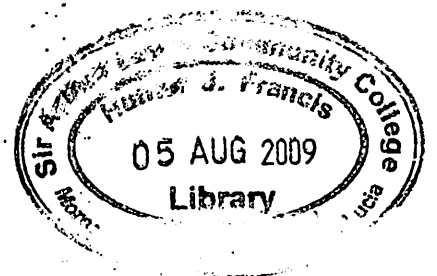
(6 marks)

- (b) The following data pertain to a hypothetical economy. Study the list carefully and then answer the questions that follow: Show all working

		Million
i)	Subsidies	\$20
ii)	Corporation taxes	45
iii)	Transfer payments	15
iv)	Gross domestic product at market prices	2 000
v)	Property income from abroad	41
vi)	Gross domestic fixed capital formation	62
vii)	Capital consumption allowance	36
viii)	Indirect taxes	204
ix)	Undistributed profits	42
x)	Personal income taxes	180
xi)	Property income to abroad	56
xii)	National insurance contributions	45
xiii)	Imports	60
xiv)	Personal consumption expenditure	350
xv)	Exports	48

Using the expenditure method and the figures above calculate the following:

- |    |                        |           |
|----|------------------------|-----------|
| a) | National income        | (6 marks) |
| b) | Government expenditure | (5 marks) |
| c) | Personal income        | (4 marks) |
| d) | Disposable income      | (3 marks) |



2. Study the table below and then fill in the blanks on the question paper. Suppose one unit of input can produce the following units of output in St. Vincent and Grenada :

	One unit of resource produces	
	Citrus	Spices
i) St. Vincent	150	60
ii) Grenada	100	50

- a) Which country has the absolute advantage in the production of spices? (1 mark)  
\_\_\_\_\_
- b) Does reciprocal absolute advantage exist? \_\_\_\_\_ (1 mark)  
Explain: \_\_\_\_\_ (1 mark)
- c) What is the opportunity cost of producing one tonne of citrus in:  
i) St. Vincent \_\_\_\_\_ ii) Grenada \_\_\_\_\_ (4 marks)
- d) What is the opportunity cost of producing one tonne of spices in:  
i) St. Vincent \_\_\_\_\_ ii) Grenada \_\_\_\_\_ (4 marks)
- e) Which country has the comparative advantage in the production of spices? \_\_\_\_\_ (1 mark)
- f) Which country should specialize in citrus production? \_\_\_\_\_ (1 mark)

3. These figures were taken from the Balance of Payments statistics for Country X for the 2002 to 2007. Complete the table:

YEAR	EXPORTS		IMPORTS		Visible Balance \$	Invisible Balance \$	Current Balance \$
	Visible \$	Invisible \$	Visible \$	Invisible \$			
2002	19 330	11 467	22 663	9 655			
2003	25 191	15000	29 120	11 952			
2004	31 728	16 788	34 012	14 545			
2005	35 063	18 958	36 605	16 477			
2006	40 678	3 694	36 542	1 099			
2007	47 389	25 764	46 211	23 737			

(9 marks)

b) You are given the following information about behaviour in an economy. Use this information to answer the questions that follow. Show all working.

The consumption function is  $C = 60 + 0.75y_d$  (Eq. 1)

The relationship between national income and disposable income is  $Y_d = Y$  (Eq. 2)

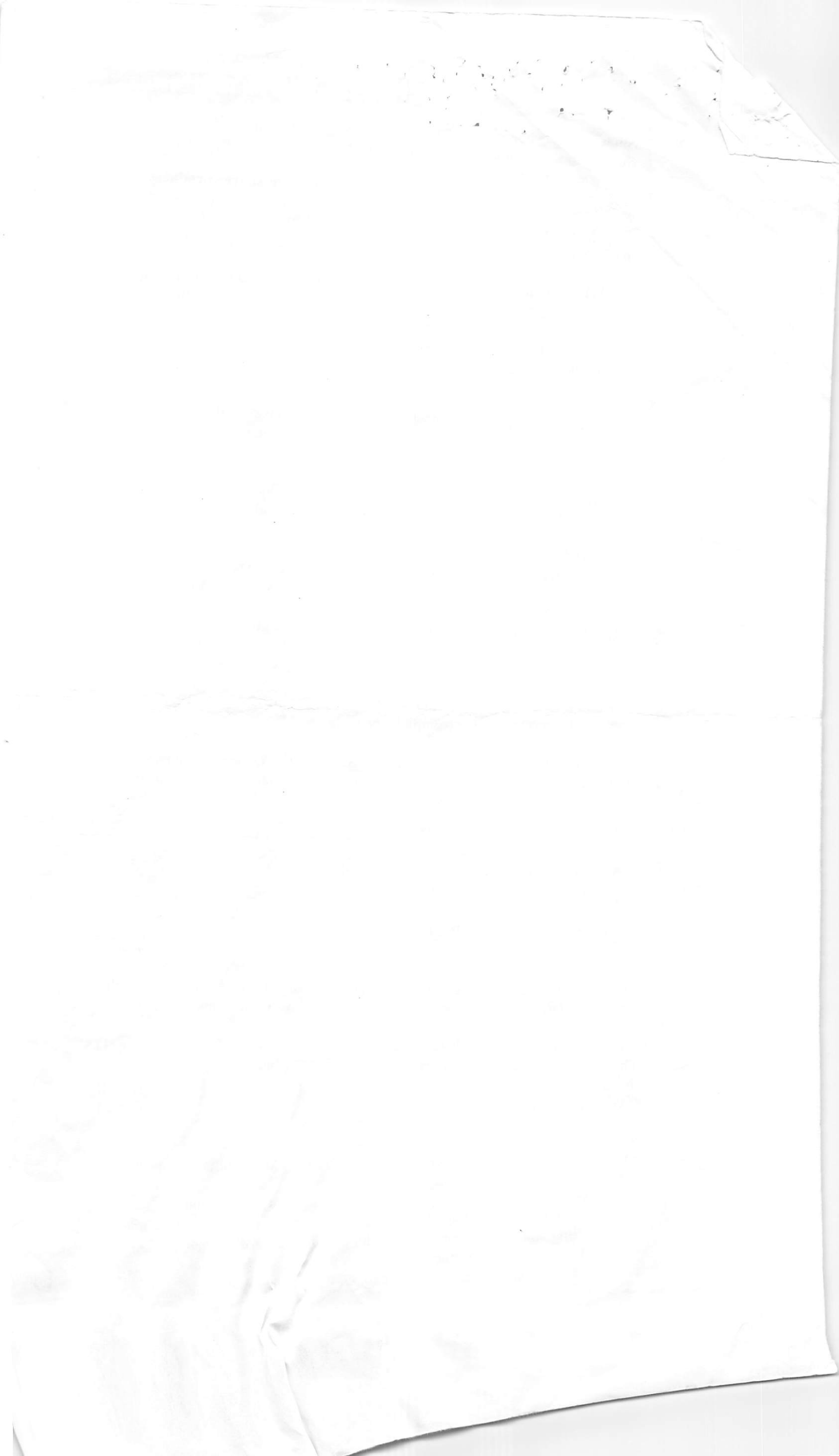
Investment expenditure is  $I = 50$  (Eq. 3)

Questions:

- i) What does equation (2) imply? (1 mark)
- ii) Derive the algebraic expression for aggregate expenditure. (2 marks)
- iii) What is the value of the marginal propensity to consume? (1 mark)
- iv) What is the algebraic equivalent to the statement "equilibrium is achieved where the AE curve intersects the 45° line"? (2 marks)
- v) Using your answer for (iv) solve for equilibrium level of income (3 marks)
- vi) What is the value of the simple multiplier? (2 marks)
- vii) If investment increased from 50 to 55, what is the new equilibrium level of income? (3 marks)







4. Match each lettered concept on the left with the appropriate numbered phrase on the right: (10 marks)

- |                                    |  |
|------------------------------------|--|
| _____ A. Open economy              | 1. A situation in which people confuse nominal and real variables  |
| _____ B. Imports                   | 2. Anything that government has decided must be accepted in payment of a debt.   |
| _____ C. Forty-five degree line    | 3. A policy entailing the direct deregulation of wages   |
| _____ D. Disposable income         | 4. Goods produced abroad but purchased for use in the domestic economy   |
| _____ E. Actual output             | 5. The nominal money supply divided by the price level   |
| _____ F. Liquidity                 | 6. An economy that has transactions with other countries   |
| _____ G. Inventories               | 7. Percentage of the labour force who are without a job but are willing and available for work.                          |
| _____ H. Fiscal policy             | 8. The amount produced in a particular period  |
| _____ I. Money illusion            | 9. It joins all points at which income equals expenditure on the income expenditure diagram                              |
| _____ J. Balance of Payments       | 10. Amount of labour and capital in an economy   |
| _____ K. Incomes policy            | 11. Income that households have for spending and saving.   |
| _____ L. Legal tender              | 12. The ratio of the change in equilibrium output to the change in autonomous spending that causes the change in output. |
| _____ M. Discouraged worker effect | 13. A school of thought in which wages and prices are assumed to be fully flexible.                                      |
| _____ N. Real money supply         | 14. Government decisions about spending and taxes.   |
| _____ O. Multiplier                | 15. A motive for holding money reflecting the fact that payments and receipts are not perfectly synchronized.            |

