



**THE UNIVERSITY OF THE WEST INDIES
FIVE ISLANDS CAMPUS**

Semester II

Examinations of April/May 2022

Course Code: ECON1002
Course Title: Introduction to Macroeconomics
Date of Assessment: Wednesday, May 11, 2022
Time: 1:00pm - 3:00pm
Duration: 2 Hours
Paper No.: 1

INSTRUCTIONS TO CANDIDATES:

This paper has 5 pages and 5 questions.

YOU ARE REQUIRED TO ANSWER 3 QUESTIONS.

THIS ASSESSMENT IS WORTH 60% % OF YOUR FINAL GRADE.

ASSIGNMENT DETAILS FROM INSTRUCTORS:

Candidates are required to answer ANY three questions. Each question is worth 20 marks.

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Question 1

A) Identify the four components of the GDP. Given below, indicate the variable to which each is related and describe the relationship:

- i) Interest rate
- ii) Disposable income
- iii) Taxes
- iv) Exchange rate

(4 marks)

B) Given the following information:

	\$
GDP at market price	250 000 000
Income from nationals living abroad	2 000 000
Subsidies	100 000
Income payment to foreigners	1 900 000
Indirect Taxes	700 000

You are required to calculate:

- i) GDP at market price
- ii) GNP

(4 marks)

C) Give the formulae to calculate each of the following:

- i) Personal Income
- ii) Disposable income

(4 marks)

D) With the use of appropriate examples, clearly distinguish between each of the following:

- i) Direct taxes and indirect taxes
- ii) Consumption and investment

(8 marks)

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Question 2

Given the following data for Country B

Year	Nominal GDP	Real GDP	Population
2020	\$750 000 000	\$7050 000 000	40 000
2021	\$1000 000 000	\$900 000 000	50 000

- a) Based on the information above, you are required to:
- Calculate the Real GDP per capita for each year **(2 Marks)**
 - Calculate Nominal GDP, Real GDP and Real GDP per capita growth rate **(3 Marks)**
 - Calculate the GDP Deflator and explain its meaning. **(3 Marks)**
- b) In terms of measuring the performance of economies;
- State three differences between Nominal and Real GDP. **(3 marks)**
 - Explain why Real GDP per capita is the most accurate measure of economic growth. **(3 marks)**
- c) Define Gross Domestic Product and explain why it is not a good measure of economic well-being, **(6 marks)**

Question 3

Given is a fix basket of goods, which contains 3 Lbs. of rice and 2 Lbs. of chicken. Below are changes in prices over a three year period.

Year	Price per Lb. chicken	Price per Lb. of rice
2019	\$3	\$4
2020	\$4	\$4
2021	\$4	\$5

- a) Based on the above information, you are required to:
- Calculate the cost of the basket for each year
 - Calculate the CPI for each year
 - Calculate the inflation rate for each year **(5 marks)**

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- b) Describe two differences between GDP Deflator and CPI. **(4 Marks)**
- c) Briefly explain why high inflation may not necessarily create economic hardship for some average income earners. **(5 Marks)**
- d) As an economic advisor within the Ministry of Economics, you are required to recommend and justify two appropriate policy measures to manage the current inflationary condition. **(6 Marks)**

Question 4

- a) What is the difference between legally required reserves and excess reserves? **(2 Marks)**

- b) Suppose that the T-account for ABC National Bank is as follows:

	Assets		Liabilities
Reserves	\$50 000	Deposits	\$250 000
Loans	\$200 000		

- i) If the central bank requires the banks to hold 10% of deposits as reserves, how much in excess reserves does ABC National Bank holds? **(2 marks)**
- ii) If ABC National Bank decides to reduce its reserves to only the required amount, by how much would the economy money supply increase? **(2 marks)**
- c) Use the quantity theory of money to explain the cause of inflation. Critically examine the applicability of this analysis in the context of Caribbean economies. **(4 marks)**
- d) Suppose that changes in the bank regulations expand the availability of credit card so that people need to hold less cash.
- i) With the aid of a diagram, show how this event affects the demand for money. **(2 marks)**
- ii) If the central bank does not respond to this event, what will happen to the price level? **(4 marks)**
- iii) If the central bank wants to keep the price level stable, what should it do? **(4 marks)**

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Question 5

- a) With aid of the appropriate diagram, you are required to:
- i) Explain why the aggregate demand curve is downward sloping. **(3 marks)**
 - ii) Explain why the aggregate demand curve is vertical. **(2 marks)**
- b) Using the AD/AS Framework, explain the effect on prices and output if:
- i.) Better job opportunities cause many people to migrate. **(4 marks)**
 - ii) Farmers experience excellent weather conditions for a prolonged period. **(4 marks)**
- c) Using the investment –savings model, explain the following:
- i) The slope of the investment curve. **(2 marks)**
 - ii) The slope of the savings curve. **(2 marks)**
 - iii) The effect of tax-credit on savings and investment. **(3 marks)**

END OF QUESTION PAPER