

NATIONAL UNIVERSITY OF LESOTHO
FACULTY OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS & EXTENSION
SEMESTER 2
UNDERGRADUATE EXAMINATIONS
AEC 3308: MACRO-ECONOMICS FOR AGRICULTURE

MAY 2023

MARKS: 60

TIME: 3HRS

INSTRUCTIONS:

1. Answer **Questions 1, 2, 3** and any other **one** question.
2. Start each question on a new page.
3. Each question carries **15 Marks**.
4. Marks allocated for each question are in brackets.

QUESTION 1.

- (a) Is there any need for the study of Macro-economics in an economy? **(1)**
- (b) How would you define Macro-economics in a clear term? **(2)**
- (c) List and briefly explain all the aggregate economic variables that are of utmost importance in Macro-economics. **(5)**
- (d) Given the following saving function :
$$S = - 25 + 0.3Y_d$$
 Derive the consumption function. **(7)**

QUESTION 2.

- (a) Give the definition of IS curve. **(2)**
- (b) Draw a well labeled IS curve. **(2)**
- (c) Explain the situation when there can be movement along IS curve. **(1)**
- (d) Explain the situation when there can be shift in the IS curve. **(1)**
- (e) Given that $C = 5 + 2/3Y_d$, derive the Saving function **(6)**
- (f) Illustrate your answer in question 2 (e) with a curve **(3)**

QUESTION 3.

- (a) Give 4 assumptions of credit creation by Commercial Banks **(2)**
- (b) Suppose there is M50, 000 in a hypothetical economy called TATO with 10% statutory reserve ratio. If the assumptions stated above by you hold, show in a tabular form multiple expansion of credit of first, second, third, fourth, and other generation of banks. **(12)**
- (c) Give one reason why your answers in the table you have provided above in (b) may not be realised. **(1)**

QUESTION 4.

Provide detailed explanations for the following theories of consumption listed in (a) to (d) below:

- (a) The Absolute Income Hypothesis. **(3)**
- (b) The Relative Income Hypothesis. **(3)**
- (c) The Permanent Income Hypothesis. **(3)**
- (d) The Life Cycle Hypothesis. **(3)**
- (e) Explain the following macroeconomic terms:
 - (i) Consumption **(1.5)** (ii) Consumption expenditure **(1.5)**

QUESTION 5.

- (a) Explain what is meant by the following terms:
 - (i) Induced investment. **(3)** (ii) Autonomous investment. **(3)**
- (b) (i) Draw a well labeled Induced investment curve. **(2)**
 - (ii) Draw a well labeled Autonomous investment curve. **(2)**
- (c) Explain the two factors that determine planned investment spending. **(2)**
- (d) Show with relevant equations how saving and investment can be equal to each other. **(3)**