



2nd SEM. 2004/2005

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UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER

PROGRAMME: BACHELOR OF SCIENCE IN AGRICULTURAL
ECONOMICS YEAR V

COURSE CODE: AEM 504

TITLE OF PAPER: MACROECONOMICS

TIME ALLOWED: TWO (2) HOURS

- INSTRUCTIONS:**
1. **ANSWER QUESTION ONE AND CHOOSE ANY OTHER TWO FROM THE REMAINING THREE QUESTIONS.**
 2. **QUESTION ONE CARRIES FOURTY(40) MARKS AND THE REMAINING QUESTIONS THIRTY MARKS EACH.**

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Question 1

- (a) Explain the expenditure and factor income approaches in measuring Gross Domestic Product. **14 MARKS**
- (b) Distinguish between the two major price indices used to measure the price level and inflation. **10 MARKS**
- (c) Explain problems associated with Gross Domestic Product as a measure of economic welfare and Consumer Price index as measures of cost of living **16 MARKS**

Question 2

Write short notes on the following

- (a) Consumer expenditure **12 MARKS**
- (b) Investment **8 MARKS**
- (c) Government purchases of goods and services **6 MARKS**
- (d) Net exports **4 MARKS**

Question 3

- (a) Distinguish between Autonomous and Induced expenditure. **5 MARKS**
- (b) The following information applies to the economy of country X.: The government of country X makes no transfer payments. Autonomous consumption expenditure is E100 million and the marginal propensity to consume is 0.9. Investment is E460 million, government purchases of goods and services are E400 million, and taxes are a constant E400. Exports are E350 million, and imports are 10 percent of income.
- (i) Calculate the slope of the Aggregate Demand curve. **2 MARKS**
- (ii) The government cuts its purchases of goods and services to E 300 million. What is the change in real GDP? **4 MARKS**
- (iii) The government continues to purchase E400 million worth of goods and services and cuts taxes by E100 million. What is the change in real GDP? **4 MARKS**
- (iv) Assume $GDP = E 6000$, personal Disposable income is E5100 and Government budget deficit is E200. Consumption is E3800 and the trade deficit is E200. How large is saving and government spending? **15 MARKS**

Question 4

- (a) Briefly discuss the main services provided by financial intermediaries? **8 MARKS**
- (b) Explain the main motives for holding money. **6 MARKS**
- (c) With the aid of a diagram show the effects in the IS-LM analysis of an increase in government spending on real GDP and the interest rate. **16 MARKS**