UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER

PROGRAMME: B.Sc. in Agriculture V (AEM OPTION)

COURSE CODE: AEM 504

TITLE OF PAPER: MACROECONOMICS

TIME ALLOWED: TWO (2) HOURS

INSTRUCTION: 1.   ANSWER QUESTION ONE AND CHOOSE ANY
OTHER TWO FROM THE REMAINING THREE
QUESTIONS.

  2.   QUESTION ONE CARRIES FORTY (40) MARKS
AND THE REMAINING QUESTIONS THIRTY
MARKS EACH.

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Question 1

(a)   Briefly explain the four parts in the definition of Gross Domestic Product (GDP) and draw a well labeled diagram to illustrate the circular flow of expenditure and income

20 MARKS

(b)   Describe how anticipated inflation decreases potential GDP and slows down economic growth.   **10 MARKS**

(c)   Explain how Fiscal Policy can influence the capital market.   **10 MARKS**

Question 2

(a)   Distinguish between GDP Deflator and Consumer Price Index (CPI) as measures of the price level and show with examples how to calculate economic growth rate and inflation rate.   **7 MARKS**

(b)   Explain the main sources of bias in the CPI.   **8 MARKS**

(c)   Compare the expenditure and income approaches for measuring GDP.

15 MARKS

Question 3

(a)   Describe the main influences on:

(i)   Aggregate Demand   **5 MARKS**

(ii)   Potential GDP   **5 MARKS**

(iii)   Household's saving decisions   **7 MARKS**

(b)   Briefly explain the economic functions of financial institutions

7 MARKS

(c)   Distinguish between demand-pull and cost-push inflation.   **6 MARKS**

Question 4

(a)   Describe the basic idea of the multiplier and how it is influenced by the marginal propensity to consume, the marginal propensity to import and the marginal tax rate.   **12 MARKS**

(b) You are given the following information about the economy of SWAZIANA: Autonomous consumption is E100 million and the marginal propensity to consume is 0.9. Investment is E460 million, government purchases of goods and services are E 400 million, and net taxes are a constant E400 million (they do not vary with income).

   (i)   What is the consumption function?

   (ii)   What is the equation that describes the aggregate expenditure curve?

   (iii)   Calculate equilibrium expenditure.

   (iv)   If investment falls to E360 million, what is the change in equilibrium expenditure and what is the size of the multiplier?

                                                                                          18 MARKS