



SUPPLEMENTARY 2005/2006

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UNIVERSITY OF SWAZILAND
SUPPLEMENTARY EXAMINATION PAPER

PROGRAMME: BACHELOR OF SCIENCE IN AGRICULTURAL
ECONOMICS YEAR V

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 FOURTY (40) MARKS AND THE REMAINING QUESTIONS THIRTY MARKS EACH.

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CHIEF INVIGILATOR

Question 1

- (a) Briefly describe the four components making up the total demand for domestic output. **(10 MARKS)**
- (b) Write short notes on the following:
- (i) Nominal and Real GDP **(4 MARKS)**
 - (ii) Price indices **(12 MARKS)**
- (c) Explain what would be the effect of an increase in government transfer payments and a decrease in government purchases on equilibrium income? **(7 MARKS)**
- (d) Assume $GDP = E6000$, personal disposable income is $E5100$ and the government budget deficit is $E200$. Consumption is $E3800$ and the trade deficit is $E100$.
- (i) How large is saving (S)?
 - (ii) How large is government spending (G)? **(7 MARKS)**

Question 2

- (a) Suppose the consumption function is given by:
 $C = 100 + 0.8Y$, while investment is given by $I = 50$
- (i) What is the equilibrium level of income in this case?
 - (ii) What is the level of saving in equilibrium?
 - (iii) If, for some reason, output were at the level of 800, what would the level of involuntary inventory accumulation be?
 - (iv) If I was to rise to 100, what would the effect be on equilibrium income?
 - (v) What is the value of the multiplier, in this case?
 - (vi) Draw a diagram indicating equilibria in both (i) and (iv) **(24 MARKS)**
- (b) Since, in equilibrium, income equals aggregate demand, it would appear that a $E100$ increase in autonomous spending should raise equilibrium income by $E100$. If this statement is false explain why. **(6 MARKS)**

Question 3

- (a) Why would a modern economy find it very difficult to operate without money as a medium of exchange?
(10 MARKS)
- (b) Give a short account of the problems associated with GDP measurement.
(12 MARKS)
- (c) Briefly explain how macroeconomic equilibrium is determined.
(8 MARKS)

Question 4

- (a) Explain what is meant by a budget surplus.
(5 MARKS)
- (b) Explain what you understand by the marginal propensity to consume.
(4 MARKS)
- (c) Briefly explain the individual influences of money supply, government purchases and taxes on interest rates, real GNP and the price level.
(21 MARKS)