



1<sup>st</sup> SEM. 2009/2010

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UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER

PROGRAMME: B.Sc IV in Agricultural Economics and Agribusiness Management

COURSE CODE: AEM 401

TITLE OF PAPER: INTERMEDIATE MACROECONOMICS

TIME ALLOWED: TWO (2) HOURS

INSTRUCTION: 1. ANSWER ALL QUESTIONS  
2. EACH QUESTION CARRIES TWENTY FIVE (25) MARKS

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**QUESTION ONE**

(a) Draw a well labeled diagram to illustrate the circular flow of expenditure and income and briefly explain why the value of production equals total income equals total expenditure. **18 MARKS**

(b) Explain how Fiscal Policy can influence the capital market. **7 MARKS**

**QUESTION TWO**

(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. **10 MARKS**

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

(c) Distinguish the three types of unemployment and explain how they change over the business cycle? **7 MARKS**

**QUESTION THREE**

(a) Describe the main influences on Aggregate Demand, Short-Run Aggregate Supply and Potential GDP **10 MARKS**

(b) Briefly explain the economic functions of financial institutions **8 MARKS**

(c) Distinguish between demand-pull and cost-push inflation. **7 MARKS**

**QUESTION FOUR**

(a) Briefly discuss the balanced budget multiplier. **7 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**