UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER

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

COURSE CODE: AEM 307

TITLE OF PAPER: INTERMEDIATE MACROECONOMICS

TIME ALLOWED: TWO (2) HOURS

INSTRUCTION: 1.   ANSWER ALL THREE QUESTIONS
2.   QUESTION ONE CARRIES FORTY (40) MARKS AND THE REMAINING QUESTIONS THIRTY MARKS EACH.

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Question 1

(a) Define and discuss GDP.   **12 MARKS**

(b) Use the idea of the circular flow diagram to explain why the value of production equals total income equals total expenditure.   **13 MARKS**

Question 2

(a) Explain the business cycle by describing the phases and turning points.
                                                              5 MARKS

(b) What are the three types of unemployment and how do they change over the business cycle?   **12 MARKS**

(c) Explain the relationship between real GDP and potential GDP and between the· unemployment rate and the natural unemployment rate as the economy moves through a business cycle.   **8 MARKS**

Question 3

(a) Is the CPI a biased measure of the inflation rate? Explain your answer. **16 MARKS**

(b) "The bias in the CPI distorts private contracts because a future payment that is linked to the CPI will be raised above the true increase in the price level." Is the previous sentence true or false?   **4 MARKS**

(c) What is the difference between a recessionary gap and an inflationary gap?
                                                              5 MARKS

Question 4

(a) List and explain the factors that can increase labor productivity.   **7 MARKS**

(c) What is barter? What is a double coincidence of wants? How does the existence of money affect barter?   **5 MARKS**

(d) Describe how a demand-pull inflation can occur.   **7 MARKS**

(e) Suppose Aggregate Expenditure (AE) = Consumption (C) + Investment (I), $C = 20 + 0.9Y$ and $I = 80$. Y represents real income. What is the equilibrium level of income and the multiplier in this case?   **6 MARKS**