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UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER

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

COURSE CODE: AEM 204 / 307

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) Discuss how the Swaziland Government can use fiscal policies to stabilize the business cycle? **[15 MARKS]**
- (b) Distinguish the three types of unemployment and explain how they change over the business cycle? **[10 MARKS]**

QUESTION TWO

Consider a macro economy that only produces tablets and smart phones. Use the information below to answer the following questions.

Product	Quantity (thousands)		Price (hundreds of dollars)	
	2010	2015	2010	2015
Tablets	50	70	\$20	\$40
Smart Phones	50	80	\$10	\$15

- a) Calculate nominal and real GDP for 2010 and 2015 using 2010 as the base year. What is the approximate growth rate in the economy over this period? What is the approximate annual growth rate? **[10 MARKS]**
- b) Assuming that the quantities in the table also represent the typical consumer's basket of goods, calculate the GDP deflator and CPI for 2010 and 2015 using 2010 as the base year **[8 MARKS]**
- c) What are the inflation rates between 2010 and 2015 for the two price measures above? Give two reasons why the inflation rate (measured by the CPI) may overstate inflation. **[7 MARKS]**

QUESTION THREE

Consider the following Neoclassical model of the economy, where the domestic interest rate r and the world interest rate r^* are in percentage terms. Show all your work.

Supply	Demand
$Y = F(K, L) = \sqrt{KL}$ $K = 400; L = 100$ $r^* = 5\%$	$C = 30 + \left(\frac{2}{3}\right)(Y - T)$ $I = 40 - 2r$ $G = 60, T = 50$

What is the level of GDP in the economy? In a closed economy find the equilibrium real interest rate, national saving and investment. Show the loanable funds equilibrium in a diagram. **[25 MARKS]**

QUESTION FOUR

- (a) Briefly discuss the government expenditure multiplier. **[7 MARKS]**
- (b) Discuss the sources that can start demand pull inflation and cost push inflation **[18 MARKS]**