

**University of Swaziland
Final Examination Paper
Supplementary 2005**

Title of Paper : Macroeconomics

Course Code : ECON 203/ IDE- ECON 203-1 and 2

Time Allowed : Three (3) Hours

Instructions:

- 1. Answer Four Questions, Two from Section A and Two from Section B.**
- 2. All Questions Carry Equal Marks of 25 each.**

**DO NOT OPEN THIS QUESTION PAPER UNTIL THE INVIGILATOR
HAS GRANTED PERMISSION.**

QUESTION 1

Write concise explanatory notes on each of the following:

- (a) Keynesian and Classical cases of the LM curve.
- (b) Problems encountered when using GDP per capita as a measure of social welfare
- (c) The roots of macroeconomics
- (d) Methodology of macroeconomics
- (e) The three main topics of primary concern to macroeconomics

(5 marks each)

QUESTION 2

- (a) Distinguish between GDP and GNP. Outline the income and expenditure approaches used to calculate GDP.

(15 marks)

- (b) The economy of Swaziland recorded high growth rates in the 1980s and early 1990s. What factors were responsible for this? What factors contributed to the turnaround in economic performance?

(10 marks)

QUESTIONS 3

Discuss in detail, using current statistics, any five challenges facing the economy of Swaziland.

(25 marks)

QUESTION 4

- (a) Derive the equation for the LM curve. Explain all steps.

(10 marks)

- (b) Derive the equation for the IS curve.

(5 marks)

- (c) State the main assumptions of the Simple Keynesian Model. Graph and compare the aggregate demand curves with and without government sector in this model.

(10 marks)

SECTION B**QUESTION 5**

- (a) Various factors have been cited as responsible for the appreciation of the Rand that began late 2003. Outline factors.
(5 marks)
- (b) The case for fixed exchange rates is based on monetary discipline, speculation and uncertainty. Discuss each in detail.
(10 marks)
- (c) Discuss the nature and functions of the foreign exchange market.
(10 marks)

QUESTION 6

- a) Compare and contrast the effects of an expansionary fiscal policy on equilibrium income in the Simple Keynesian, IS/LM and AD/AS Model. Use graphs to illustrate your points.
(20 marks)
- b) Explain the concept of neutrality of money.
(5 marks)

QUESTION 7

Write short explanatory notes on each of the following:

- (a) Hedging and Speculation in the foreign exchange market.
(b) Short run aggregate supply curve depicting the 3 ranges.
(c) Lags in policy formulation.
(d) Any two types of unemployment.
(e) Leading, lagging and coincident indicators.
(5 marks each)

QUESTION 8

- (a) Enumerate the main differences between demand – pull and cost – push inflation
(8 marks)
- (b) Use the IS/LM Model, incorporating the foreign sector, to analyse the effect of an increase in exports on equilibrium output and the trade balance.
(12 marks)
- (c) Define and draw a business cycle, showing all the phases.
(5 marks)