

UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER 2005

- TITLE OF PAPER : INTERMEDIATE ECONOMIC THEORY**
- COURSE CODE : ECON 301**
- TIME ALLOWED : THREE (3) HOURS**
- INSTRUCTIONS : 1. ANSWER FOUR QUESTIONS:**
- TWO QUESTIONS FROM SECTION A AND TWO FROM SECTION B.**
- 2. ALL QUESTIONS CARRY EQUAL MARKS OF 25 (TWENTY FIVE) EACH.**

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SECTION A

Question 1

- a) Outline the four (4) Revealed Preference assumptions. (10 marks)
- b) Graphically, show the derivation of the demand law using the Revealed Preference Hypothesis. (15 Marks)

Question 2

- a) Explain briefly features of a Cobb-Douglas function. (7 Marks)
- b) Using Cobb-Douglas function, derive mathematically cost functions from a production function. (18 Marks)

Question 3

- a) Explain the meaning of the term 'Multiplant monopolist'. (7 Marks)
- b) Given,
 $Q = 200 - 2p$
 $C_1 = 10Q_1$
 $C_2 = 0.25Q_2^2$
 Find,
 i) Price of Q
 ii) Q_1 and Q_2
 iii) Profit (15 Marks)
- c) Comment on the results obtained in b) above. (3 Marks)

Question 4

Write short, explanatory notes on the following:

- a) General Equilibrium
 b) Kaldor-Hicks compensation criterion
 c) Linear programming
 d) Bilateral monopoly
 e) Vertical vs. horizontal differences in labour resources (5 Marks each)

SECTION B

Question 5

- a) With the aid of examples, distinguish between fiscal policy and monetary policy. (7 Marks)
- b) Using diagrams, explain the conditions under which an expansionary fiscal policy is completely ineffective in correcting economic instability. (18 marks)

Question 6

- a) What do you understand by the term 'inflation'? (5 Marks)
- b) Explain the demand-pull and cost-push inflation, and show which of the two would better explain inflation in Swaziland. (20 marks)

Question 7

Write short, explanatory notes on each of the following:

(5 Marks each)

- a) Real variables vs. nominal variables
- b) Keynesian vs. Classical school of thought
- c) Money supply multiplier
- d) Government expenditure multiplier
- e) Tax systems function as automatic stabiliser of income

Question 8

- a) Explain briefly the meaning and significance of macroeconomic aggregates. (5 marks)
- b) Using suitable macroeconomic aggregates, discuss how Swaziland economy has performed in the past five (5) years, and how it is likely to perform over the three (3) coming years given current trends. (20 Marks)