

UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER

Title of Paper: Macroeconomics

Course Code: ECON 203

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 explanatory notes on each of the following

- a) Functions of money
- b) Monetary accommodation
- c) Expenditure Switching and Expenditure reducing policies
- d) Stick Wages
- e) Policy dilemma [5 marks each]

Question 2

a) Explain what is meant by internal and external balance. Why is it desirable to have both? [5 marks]

b) Monetary and Fiscal policies are stabilization policies used to achieve certain macroeconomic objectives. Outline these objectives and clearly explain how each of them is measured? [20 marks]

Question 3

a) What are the main assumptions underlying the AD-AS model? Outline the implication of each of the assumptions to the determination of equilibrium income. [10 marks]

b) Given that in a particular year the government of Swaziland increases its expenditure on housing construction and maintenance, with the aid of appropriate diagrams, trace the adjustment process to long run equilibrium in the AD-AS model. [15 marks]

Question 4

The Southern African region is cited as the “worst performing” in the world. Highlight the major problems and challenges faced by the region, citing relevant statistics where possible. What challenges does South Africa face as the most developed economy within the Southern African region? [25 marks]

SECTION B

Question 5

- a) Why is inflation regarded as a “social ill”? [5 marks]
- b) What factors have led to the continuous increase in the rates of inflation and unemployment in Swaziland over the recent past? [10 marks]
- c) In the context of the Swazi economy, explain why continuous increases in inflation and unemployment are detrimental? [10 marks]

Question 6

- a) Define and distinguish between the inside and outside lags in policy formulation and implementation. [10 marks]
- b) What is meant by a business cycle? Show and explain the different stages of the cycle. What indicators are normally used to trace the cycle? [15 marks]

Question 7

- a) Define a production function. What is the relationship between the labour demand and the production function, according to the frictionless Neoclassical analysis? [7 marks]
- b) Explain clearly how the optimal level of employment is achieved in the analysis quoted in(a) above. Use a diagram to illustrate your point and state all relevant assumptions. [15 marks]
- c) State the Law of Diminishing Returns. [3 marks]

Question 8

- a) Distinguish between a spot and a forward rate of exchange. [6 marks]
- b) What is a foreign exchange market? Discuss its major attributes [10 marks]
- c) What is a fixed exchange rate system? Why is it believed that a fixed exchange rate system imposes monetary discipline on a country practicing it? [9 marks]

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