

UNIVERSITY OF SWAZILAND

SUPPLEMENTARY EXAMINATION PAPER

Title of Paper: Macroeconomics

Course Code: ECON 203-1

Time Allowed: Two(2) Hours

Instructions:

- 1.** Answer Three Questions..
- 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 policy 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

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]

Question 4

- 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]

Question 5

- a) In what way are government budget deficits harmful to the economy? [5 marks]
- b) Using diagram explain the effectiveness of monetary policy in the two polar positions of the LM curve, the liquidity trap and the classical case. [12 marks]
- c) What is meant by monetary accommodation and when can it be used to aid policy? [8 marks]