

UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER

Title of Paper: Macroeconomics

Course Code: IDE ECON 203-2

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

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 2

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 3

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 4

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 5

Write explanatory notes on any five of the following

- a) Sticky wages
- b) Business cycle
- c) Meaning and significance of the Phillips Curve
- d) Adverse supply shocks
- e) Neutrality of money
- f] Complete Crowding out in the AD-AS model
- g] Lagging and Coincident indicators

[5 marks each]