

UNIVERSITY OF SWAZILAND
SUPPLEMENTARY EXAMINATION 2006

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 GRANTS PERMISSION**

SECTION A

Question 1

- a) Policy makers have at their command two broad classes of policies with which to stabilize the economy explain. [5 marks]
- b) Compare and contrast the Keynesian and the Classical schools of thought in macroeconomics, and demonstrate their views on the LM curve (extreme cases). [10 marks]
- c) Total demand for output is made up of four components. Outline and algebraically present the identity for these components. Also indicate which of these constitute gross domestic expenditure (GDE). [10 marks]

Question 2

The Swaziland economy is faced with the problems of exacerbating poverty, unemployment, unfavorable trade balance, stagnating growth of GDP and high incidence of the HIV/AIDS pandemic. Discuss using current statistics the extent to which these challenges affect the Swazi economy. Mention measures that the government is undertaking to mitigate the effects of these challenges. [25 marks]

Question 3

- a) Why is the IS curve negatively sloped? [3 marks]
- b) Derive the equation for the LM curve, clearly explaining all assumptions made. [10 marks]
- c) Derive the equation for the IS curve [5 marks]
- d) State and explain the assumptions underlying the Simple Keynesian model. [7 marks]

Question 4

Write explanatory notes on each of the following (give examples where necessary)

- a) balanced budget multiplier
- b) discretionary and non-discretionary fiscal policy

- c) monetizing the budget
- d) meaning and significance of the Phillips curve
- e) Lagging and coincident indicators

[5 marks each]

SECTION B

Question 5

- a) What is meant by money being **neutral** in the long run? [5 marks]
- b) Using the AD-AS model, analyse the effect of an increase in government spending on equilibrium income. [15 marks]
- c) What are supply shocks? [5 marks]

Question 6

With reference to the traditional list of its functions, answer the question, "what is money?" [25 marks]

Question 7

- a) Distinguish between cyclical unemployment and Structural unemployment [4 marks]
- b) Describe carefully the relationship explained by the standard Phillips curve. [10 marks]
- c) What policies would you recommend to combat the problem of unemployment in Swaziland? [10 marks]

Question 8

- a) what is a business cycle and how does it occur? [10 marks]
- b) What are automatic stabilizers [5 marks]
- c) How could automatic stabilizers be used to dampen the amplitude of fluctuation in the business cycle? [10 marks]