

**UNIVERSITY OF SWAZILAND  
FACULTY OF SOCIAL SCIENCE  
DEPARTMENT OF ECONOMICS**

**MAIN EXAMINATION PAPER: MAY 2007**

**TITLE OF PAPER: MACROECONOMICS  
COURSE CODE: ECON 203-1&2  
TIME ALLOWED: THREE (3) HOURS**

**INSTRUCTIONS:**

1. Answer Four (4) Questions, Two from Section A and Two from Section B.
2. All Questions Carry Equal Marks of 25 each in total.
3. The Relevant Annuity tables are provided

**DO NOT OPEN THIS QUESTION PAPER UNTIL THE  
INVIGILATOR HAS GRANTED PERMISSION.**

### Question 1

Write explanatory notes on any five of the following economic terms. Your response should show full understanding of the concept and how it applies to macroeconomics.

- a) monetising budget deficits
- b) the three central issues discussed in macroeconomics
- c) inflation indexation
- d) the business cycle
- e) leading and coincident indicators
- f) wealth constraint
- g) neutrality of money
- h) liquidity trap versus classical case of the LM curve

[5 marks each]

### Question 2

- a) What is money? Discuss the four functions of money. [13 marks]
- b) Discuss the major features and functions of a foreign exchange market. [7 marks]
- c) Discuss any three factors that are said to account for the slow growth of the Swaziland economy in recent years? [5 marks]

### Question 3

- a) Distinguish between a Customs Union and a Common Monetary Area. [5 marks]
- b) The link between the Lilangeni and the South African Rand is viewed by some to have both positive and negative consequences. Discuss the institutional arrangement linking currencies of these two countries and state the benefits and disadvantages associated with the arrangement to Swaziland. [15 marks]
- c) Discuss any two factors that pose serious development challenges to the Swazi Economy. Use current statistics to illustrate your argument. [5 marks]

### Question 4

- a) Derive the equation for equilibrium output in the simple Keynesian model, with the government sector incorporated. [5 marks]
- b) State and explain the expenditure multiplier as derived in part (a) above. [5 marks]
- c) Graph the function for aggregate demand in the model stated in (a) above and explain the effect of an income tax rate decrease on the level of equilibrium output. [15 marks]

Question 5

- a) What is meant by balance of payments (BOP)? [5marks]
- b) Using the IS-LM framework incorporating the foreign sector demonstrate how a policy dilemma with a trade deficit could be addressed using tariffs and the money supply. Clearly explain the monetary transmission mechanism. [15marks]
- c) In what way are government budget deficits harmful to an economy? [5marks]

Question 6

- a) Define and explain the relationship between inflation and unemployment. [6marks]
- b) Using a diagram illustrate the major conclusions of the Phillips curve. Clearly indicate the policy options implied. [12 marks]
- c) Explain four measures used by the Swaziland government to curb unemployment. [9marks]

Question 7

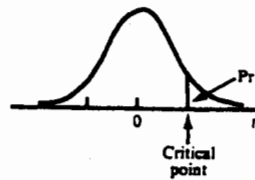
- a) Using an appropriate diagram illustrate and explain the various stages of the business cycle. [10 marks]
- b) Discuss the different views to the causes of business cycles. [10 marks]
- c) How do policy makers deal with the problem of business cycles? [5 marks]

Question 8

- a) What is meant by supply shocks? Give examples. [5 marks]
- b) Using the AD-AS framework illustrate how an adverse supply shock would affect the equilibrium output and the price level. [15 marks]
- c) Explain the statement 'wages are sticky' in the short run. [5 marks]



3. Student's *t* Critical Points



d.f. \ Pr	.25	.10	.05	.025	.010	.005	.001
1	1.000	3.078	6.314	12.706	31.821	43.657	318.31
2	.816	1.886	2.920	4.303	6.965	9.925	22.326
3	.765	1.638	2.353	3.182	4.541	5.841	10.213
4	.741	1.533	2.132	2.776	3.747	4.604	7.173
5	.727	1.476	2.015	2.571	3.365	4.032	5.893
6	.718	1.440	1.943	2.447	3.143	3.707	5.208
7	.711	1.415	1.895	2.365	2.998	3.499	4.785
8	.706	1.397	1.860	2.306	2.896	3.355	4.501
9	.703	1.383	1.833	2.262	2.821	3.250	4.297
10	.700	1.372	1.812	2.228	2.764	3.169	4.144
11	.697	1.363	1.796	2.201	2.718	3.106	4.025
12	.695	1.356	1.782	2.179	2.681	3.055	3.930
13	.694	1.350	1.771	2.160	2.650	3.012	3.852
14	.692	1.345	1.761	2.145	2.624	2.977	3.787
15	.691	1.341	1.753	2.131	2.602	2.947	3.733
16	.690	1.337	1.746	2.120	2.583	2.921	3.686
17	.689	1.333	1.740	2.110	2.567	2.898	3.646
18	.688	1.330	1.734	2.101	2.552	2.878	3.610
19	.688	1.328	1.729	2.093	2.539	2.861	3.579
20	.687	1.325	1.725	2.086	2.528	2.845	3.552
21	.686	1.323	1.721	2.080	2.518	2.831	3.527
22	.686	1.321	1.717	2.074	2.508	2.819	3.505
23	.685	1.319	1.714	2.069	2.500	2.807	3.485
24	.685	1.318	1.711	2.064	2.492	2.797	3.467
25	.684	1.316	1.708	2.060	2.485	2.787	3.450
26	.684	1.315	1.706	2.056	2.479	2.779	3.435
27	.684	1.314	1.703	2.052	2.473	2.771	3.421
28	.683	1.313	1.701	2.048	2.467	2.763	3.408
29	.683	1.311	1.699	2.045	2.462	2.756	3.396
30	.683	1.310	1.697	2.042	2.457	2.750	3.385
40	.681	1.303	1.684	2.021	2.423	2.704	3.307
60	.679	1.296	1.671	2.000	2.390	2.660	3.232
120	.677	1.289	1.658	1.980	2.358	2.617	3.160
$\infty$	.674	1.282	1.645	1.960	2.326	2.576	3.090