

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

MAIN EXAMINATION PAPER: MAY 2007

TITLE OF PAPER: MACROECONOMICS

COURSE CODE: ECON 203-2

TIME ALLOWED: TWO (2) HOURS

INSTRUCTIONS:

1. Answer any three (3) Questions.
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

- 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 2

- 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 3

- 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 4

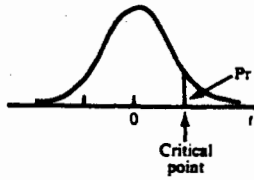
- a) What is meant by supply shocks? Give examples. [5 marks]
- b) Using the AD-AS framework illustrate how an adverse supply shock would affect the equilibrium output and the price level. [15 marks]
- c) Explain the statement 'wages are sticky' in the short run. [5 marks]

Question 5

Write explanatory notes on the following concepts

- i) leading, lagging and coincident indicators
- ii) short run aggregate supply curve depicting the three ranges
- iii) spot and forward exchange rate
- iv) bracket creep and inflation indexation
- v) accommodating policies and monetizing budget deficits in the IS-LM model [5 marks each]

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
∞	.674	1.282	1.645	1.960	2.326	2.576	3.090