

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

SUPPLEMENTARY EXAMINATION PAPER: JULY 2007

TITLE OF PAPER: MACROECONOMICS

COURSE CODE: ECON 203-2

TIME ALLOWED: TWO (2) HOURS

INSTRUCTIONS:

1. Answer any three Questions
2. All Questions Carry Equal Marks of 25 each in total.

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

Question 1

- a) Discuss the theory underlying the demand pull and cost push theories of inflation. [10 marks]
- b) Discuss clearly, with illustration, the relationship portrayed by the 'Standard Phillips curve'. Also explain the criticisms leveled by Friedman and Phelps against Standard Phillips curve. [15 marks]

Question 2

- a) Policy makers can also cause disturbances in an economy. Explain how this is possible? [7 marks]
- b) "Too little too late" is a favourable lament of those who criticize stabilization policy. Explain what makes government stabilization policy to be criticized so much? [15 marks]
- c) Explain why fiscal policy is said to have a longer inside lag compared to monetary policy? [5 marks]

Question 3

- a) Define a production function. What is the relationship between the labour demand and production functions according to the frictionless neoclassical analysis? [7marks]
- b) Explain clearly how the optimal level of employment is achieved in the analysis quoted in (a) above. Use a graph and state all the relevant assumptions. [15 marks]
- c) State the law of diminishing returns. [3marks]

Question 4

- a) Using the aggregate demand and supply model, analyze the effect of an increase in government spending on equilibrium income. [15 marks]
- b) One way in which the government can stimulate output growth and employment is through government spending. The government of Swaziland generously pursued the "Millennium Projects" in an effort to stimulate output growth and hence employment. There has, however, been mixed feelings about the manner in which the government has chosen its list of projects. In your view are the millennium projects of any economic value to the Swazi nation? [10marks]

Question 5

What is meant by unemployment? In the context of the Swaziland economy discuss the possible costs of unemployment and the measures hat the Swaziland Government has undertaken to curb the unemployment situation in Swaziland. [25 marks]