

UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER 2007

TITLE OF PAPER : MACROECONOMICS

COURSE CODE : ECON 203

TIME ALLOWED : THREE (3) HOURS

INSTRUCTIONS : 1. ANSWER FOUR QUESTIONS:

TWO QUESTIONS FROM SECTION A AND TWO FROM SECTION B.

2. ALL QUESTIONS CARRY EQUAL MARKS OF 25 (TWENTY FIVE) EACH.

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

SECTION A

Question 1

Write short explanatory notes on the following.

(5 Marks each)

- i) Potential Output vs. Actual Output
- ii) Open economy vs. Closed economy
- iii) Balance of Payments (BOP)
- iv) Structural policies vs. Stabilizing policies
- v) Price stability

Question 2

- a) What do you understand by the term 'non-price policies'? Use relevant examples. (7 Marks)
- b) Explain five (5) major goals of macroeconomic policies in a society. (18 marks)

Question 3

In recent years, the pace of Swaziland economic growth has slowed down considerably.

- a) Briefly explain three (3) indicators of the slow economic growth. (10 Marks)
- b) Explain four (4) contributing factors to the slow economic growth. (15 Marks)

Question 4

- a) What is the importance of Regional Intergration? (5 Marks)
- b) Write short explanatory notes on how Swaziland benefits from being a member of;
 - i) Southern African Customs Union (SACU) (10 Marks)
 - ii) Common Monetary Area (CMA) (10 Marks)

SECTION B

Question 5

Suppose an economy is described by the following model

$$\begin{aligned} Y &= C+I+G \\ C &= 100+0.75(Y-T) \\ T &= 100 \\ G &= 150 \\ I &= 125 \end{aligned}$$

- i) What is the level of equilibrium output? (5 Marks)
- ii) Is the government budget in balance, surplus or deficit at equilibrium level of income? (3 Marks)
- iii) Lumpsum tax also increases by E100, calculate the the new level of equilibrium income. (6 Marks)
- iv) Suppose there is a tax cut of E50, find the new level of income. (6 Marks)
- v) Comment on the changes that occur when government implements the various policies indicated above. (5 marks)

Question 6

- a) Explain the importance of using real variables. (5 Marks)
- b) Derive the Aggregate Demand (AD) curve using the 45-degree approach. (15 marks)
- c) What is the difference between the demand curve in microeconomics and that in macroeconomics. (5 marks)

Question 7

- a) Differentiate between 'Fixed Exchange Rates' and 'Floating Exchange Rates'.
(7 Marks)
- b) Show diagrammatically the effect of a change in Government spending (G) and Money Supply (Ms), on the BOP curve given Fixed exchange rates. (18 marks)

Question 8

- a) Explain the difference between 'demand-pull inflation' and 'cost push inflation'.
(7 Marks)
- b) Explain four (4) economic effects of inflation. (18 Marks)