UNIVERSITY OF SWAZILAND

FACULTY OF SOCIAL SCIENCE

DEPARTMENT OF ECONOMICS

MAIN EXAMINATION
MAY 2009

TITLE OF PAPER: ·MACROECONOMICS

COURSE CODE: ECON 203/IDE ECON 203-1&2

TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS:
1. ANSWER FOUR (4) QUESTIONS: TWO QUESTIONS (2) FROM SECTION A AND TWO QUESTIONS (2) FROM SECTION B.

2. ALL QUESTIONS CARRY EQUAL MARKS OF 25 EACH.

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SECTION A

QUESTION 1

a) Economists specify two broad macroeconomic policies that are used to achieve the basic macroeconomic objectives (goals).

    i)   Provide an outline of these macroeconomic policies.   (5 marks)

    ii)   Outline all the macroeconomic objectives and clearly state how each one of them is measured.   (10 marks)

b) Differentiate between the Classical school of thought and the Keynesian school.
    (10 marks)

QUESTION 2

Critically examine the advantages and disadvantages of Swaziland's membership to the Common Monetary Area (CMA). In your own opinion is it beneficial for Swaziland to continue being a member of the CMA or should she opt out?   (25 marks)

QUESTION 3

a)   Assuming a simple Keynesian model, graph and compare the aggregate demand curves with and without the government sector in the model.
    (10 marks)

b)   In an effort to improve its revenue base, the government of Swaziland decided to increase the tax rate by 10%. Indicate by way of graphs the effect that this would have on aggregate demand and the equilibrium income.
    (10 marks)

c)   Discus the problems encountered when using GDP per capita as a measure of social welfare.   (5 marks)

QUESTION 4

i) Discuss the effectiveness of fiscal policy in the case of a vertical IS curve? (10 marks)

ii) Suppose that the Swazi economy is defined by the following data:

$C = 250 + 0.75Yd$
$I = 100 + 0.1Y - 30i$
$G = 200$
$T = -20 + 0.2Y$
$Yd = Y - T$
$Y = C + I + G$
$Ms = 500$
$Md = 10 + 0.4Y - 50i$
$Ms = Md$

     a)   Derive the IS equation for the Swazi economy.   (5 marks)
     b)   Derive the LM equation.   (5 marks)
     c)   What is the equilibrium level of income and equilibrium level of interest rate?   (5 marks)

SECTION B

QUESTION 5

a) Distinguish between a capital account and the current account in the Balance of payments accounts. ([5 marks)

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 money supply. (15 marks)

c) How can a fixed exchange rate system be likened to a price support scheme? (5 marks)

QUESTION 6

a) Explain giving examples the following types of unemployment

i)   Frictional unemployment

ii)   Seasonal unemployment (10 marks)

b) Discuss two possible costs of unemployment to the unemployed individual and two possible costs of unemployment to society. Also explain any three measures currently undertaken by the Swaziland government to address the unemployment situation.

(15 marks)

QUESTION 7

a) Define the trade cycle and draw a diagram depicting the different phases of the business cycle. Clearly explain what happens at each stage. (12 marks)

b) Macroeconomic policy stabilization is said to be complex and faces a number of problems, one of which is uncertainty and the existence of lags in policy formulation and implementation. Explain what complicates the stabilization process and hence discuss the lags that are involved in policy formulation and implementation. (15 marks)

QUESTION 8

Using the Aggregate demand/Aggregate supply model analyse the effects of an expansionary monetary policy on equilibrium income/output. Make sure to bring out the short run, medium term, and long run effects, and hence explain the concept of neutrality of money. (25 marks)

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