

UNIVERSITY OF SWAZILAND
FACULTY OF SOCIAL SCIENCE
DEPARTMENT OF ECONOMICS
SUPPLEMENTARY EXAMINATION
JULY 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 (2) FROM SECTION A AND TWO
 (2) FROM SECTION B**

 - 2. ALL QUESTIONS CARRY EQUAL
 MARKS 25 EACH.**

**THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS
BEEN GRANTED BY THE INVIGILATOR.**

SECTION A

QUESTION 1

Write short explanatory notes on each of the following:

- i) The problems encountered when using GDP as a measure of social welfare.
- ii) Distinguish between GDP and GNP.
- iii) The accounting equation of exchange and its relevance to the Classical school of thought.
- iv) SACU versus the CMA.
- v) Motives for money demand. [5 marks each]

QUESTION 2

- a) The economy of Swaziland recorded high growth rates in the 1980's and early 1990's.
 - i) What factors were responsible for these high growth rates? [5marks]
 - ii) What are the factors that contributed to the turnaround in economic performance? [5marks]

- b) Some of the development challenges facing the Swaziland economy include: Poverty, Unemployment, Declining government revenue base, Low economic growth and the HIV/AIDS incidence.

Using current data discuss the extent to which these challenges pose a threat to the social and economic well-being of Swazis. [15 marks]

QUESTION 3

Suppose that the Swazi economy is defined by the following:

$$C = C + cY_d$$

$$T = tY$$

$$I = I$$

$$G = G$$

- a) Derive the aggregate demand function. [5 marks]
- b) Find the equilibrium output level [5 marks]
- c) Derive the government expenditure multiplier [5 marks]
- d) Derive the tax multiplier [5 marks]
- e) Derive the balanced budget multiplier [5 marks]

QUESTION 4

- a) Explain, with the aid of diagrams, the conditions under which an expansionary monetary policy is completely ineffective in correcting economic instability. [13 marks]
- b) Explain, with the aid of diagrams, the conditions under which an expansionary fiscal policy is completely ineffective in correcting economic instability. [12 marks]

SECTION B

QUESTION 5

- a) Explain and illustrate graphically the economic relationship prescribed by the standard Phillips curve. [10 marks]
- b) Why are continuous increases on the level of unemployment and inflation regarded problematic for a growing economy like Swaziland. [10 marks]
- c) What could the government do to protect its citizens from the negative effects of inflation? [5 marks]

QUESTION 6

Write explanatory notes on the following concepts

- a) The short run aggregate supply depicting the three ranges
b) Leading, lagging, and coincident indicators
c) The argument supporting the stickiness of wages in the short run
d) Production function and the concept of diminishing returns
e) Bracket creep and inflation indexation [5 marks each]

QUESTION 7

The public would always be interested in knowing the type of cycle an economy is experiencing at a particular point in time. Such information would also be vital for informing policy making.

- a) What is a business cycle? Discuss the different phases of a business cycle. [10 marks]
- b) Discuss and show graphically the three main views to the causes of business cycles. [15 marks]

QUESTION 8

- a) Discuss the essential features of the frictionless neoclassical model and indicate its importance in macroeconomic analysis. [10 marks]
- b) Using the AD/AS model show how an expansionary fiscal policy results in crowding out in the long run. Clearly explain the adjustment process. [15 marks]