UNIVERSITY OF SWAZILAND

FACULTY OF SOCAIL SCIENCE

DEPARTMENT OF ECONOMICS

MAIN EXAMINATION
MAY 2010

TITLE OF PAPER   : MACROECONOMICS

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

TIME ALLOWED   : THREE (3) HOURS

INSTRUCTIONS:

1) ANSWER ANY TWO (2) QUESTIONS FROM EACH SECTION.
2) ALL QUESTIONS CARRY EQUAL MARKS OF 25 EACH.
3) START EACH QUESTION ON A NEW PAGE.

DO NOT OPEN THIS PAPER UNTIL PERMISSION TO DO SO HAS BEEN
GRANTED BY THE INVIGILATOR.

QUESTION 1

    a) Distinguish between microeconomics and macroeconomics. Name any two broad aggregates that macroeconomics is concerned with. (5 marks)
    b) GDP can be measured in three equivalent ways. Explain each method. (5 marks)
    c) Discuss the main features and the specific objectives of SACU. (10 marks)
    d) List in order of importance the main sources of revenue for the government of Swaziland. (5 marks)

QUESTION 2

    a) For the year 2008 official estimates put real GDP growth in Swaziland at 2.4%, as opposed to the projected growth rate of 3.5%. What factors led to this development? (10 marks)
    b) Agriculture is the mainstay of the Swazi economy. Explain (5 marks)
    c) The Swazi economy faces a number of challenges such as, high incidence of poverty and the need to diversify the revenue base. Discuss each of these challenges. Use current statistics. (10 marks).

QUESTION 3

    a) Analyse the impact of an increase in the tax rate using the simple Keynesian model. Use a graph. Hint: There are two effects on aggregate demand. (10 marks)
    b) Derive the tax multiplier. (5 marks)
    c) Why is there a need for precautionary demand for money? Explain the effect on precautionary demand for money if:
    (i)   Income payments are made more frequently.
    (ii)   Economic activity expands making individuals more optimistic about the receipt of income.
    (iii)   Businessmen become uncertain about the level of spending. (10marks)

QUESTION 4

    a) Giving clear economic meaning, derive the goods market and asset market equilibrium equations. (10 marks)
    b) In a simplified economy S=I. Do you agree? Show this and explain. (2marks)
    c) Use the IS/LM model to examine the impact of an increase in government spending on income and interest rates. (10 marks)

    d) Given that C=E40+0.80Yd, I=E55-200i, G=E20 and tY=E20. Derive the IS equation. (3 marks)

QUESTION 5

a) Giving details derive the trade balance schedule. State all relevant assumptions made. (10 marks)
b) Define a real exchange rate. If the Lilangeni is devalued, how would this impact Swaziland's real exchange rate. (5 marks)
c) Define a fixed exchange rate regime. Using a graph explain how such a regime functions like a price support scheme in agriculture. (10 marks)

QUESTION 6

a) Inflation results in a misallocation of resources in the economy. Do you agree? Explain how this happens. (10 marks)
b) How is the current global crisis affecting the global economy and the Swazi economy in particular? Use statistics to explain. (10 marks).
c) Define search and disguised unemployment. (5 marks)

QUESTION 7

a) In Swaziland unemployment is very high. What are the reasons for this? (5 marks)
b) Define headline and core inflation. Why is it important to distinguish between these two? Why is the CPI referred to as the cost of living index? (10 marks)
c) Define and draw the curve developed in the 1970's that depicts a trade-off between inflation and unemployment. State the equation that describes this curve. Be sure to define each variable in the equation. (10 marks)

QUESTION 8

a) In the General theory Keynes stressed the role played by effective demand in the economy. Do you agree? Explain. (5 marks).
b) Outline the three building blocks of modern macroeconomics introduced by Keynes when deriving effective demand. (6 marks)
c) Name two of the mathematical formalizations of Keynes General theory carried out by Economists. (4 marks)
d) Write brief explanatory notes on each of the following;
(i)   Lucas critique
(ii)   New Keynesian economics
(iii)   New Classical school of thought
(iv)   Random walk of consumption
(v)   Staggering of wage and price decisions (by Fischer and Taylor)
(2 marks each)