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

## MAIN EXAMINATION PAPER: MAY, 2011

**TITLE OF PAPER: MACROECONOMICS**

**CORSE CODE:** ECON 203/ IDE- ECON 203

**TIME ALLOWED:** THREE (3) HOURS

**INSTRUCTIONS**

1. ANSWER FOUR QUESTIONS. TWO FROM SECTION A AND TWO FROM SECTION B.
2. ALL QUESTIONS CARRY EQUAL MARKS OF 25 EACH
3. BEGIN A NEW QUESTION ON A NEW PAGE

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

# SECTION A

## Question 1

Write concise explanatory notes on each of the following

  (a) The three main issues of primary concern to macroeconomics
  (b) The Common Monetary Area (CMA) and the benefits it confers to the
       Swazi economy.
  (c) The basic instruments of stabilisation policy.
  (d) Endogenous and exogenous variables in a model
  (e) Expenditure switching and expenditure reducing policies

[5 marks each]

## Question 2

(a) Some of the development challenges facing the Swaziland economy include:

  i.    Poverty
  ii.   Unemployment
  iii.  Declining government revenue base
  iv.   Low economic growth
  v.    A challenge on the rule of law and
  vi.   HIV and AIDS incidence

Using current data explain the magnitude to which these factors pose a threat to
social and economic well-being in Swaziland.                    [20 marks]

(b) Swaziland, as a developing country is "immune" to the global financial
meltdown. Do you agree with this statement? Explain your position. [5 marks]

## Question 3

  (a)  Why is the IS curve negatively sloped?                    [4 marks]

  (b) Graph the function for aggregate demand in the Simple Keynesian model
  with the government sector incorporated and explain the effect of an income
  tax decrease on the level of equilibrium output.               [12 marks]

  (c) Compare and contrast the effects of an expansionary fiscal policy on
  equilibrium in the Simple Keynesian model and the IS/LM model. Present
  your answer graphically.                                        [9 marks]

2

**Question 4**

(a) What is meant by monetary accommodation?                    [3 marks]

(b) Demonstrate graphically the effectiveness of fiscal policy in the two extreme positions (i.e. liquidity trap and the Classical case).                    [12 marks]

(c) Discuss the three motives to the demand for money. Sketch their graphs.
                    [10 marks]

# SECTION B

## Question 5

Write explanatory notes on the following:
(a) Costs of inflation
(b) Coincident and leading indicators
(c) The policy dilemma
(d) Neutrality of money and Sticky wages
(e) Inside lag and Outside lag in policy formulation

[5 marks each]

## Question 6

(a) Explain the concept of business/ trade cycle. Graphically show the different stages of the business cycle and explain the characteristics of each phase.

[13 marks]

(b) Discuss the three major views to the causes of business cycles.

[12 marks]

## Question 7

(a) Define unemployment and discuss any three types of unemployment.

[10 marks]

(b) The youth and the rural dwellers are said to be the most seriously affected by unemployment in Swaziland. Discuss the current initiatives undertaken by the government to combat this problem.                          15 marks]

## Question 8

(a) Why is the AD curve downward sloping? What is the significance of the slope in macroeconomic analysis?                          [5 marks]

(b) What determines the extent of changes in output and prices in the AD/AS model?                          [5 marks]

(c) Using the AD/AS model demonstrate how an adverse supply shock affects equilibrium output and prices. Indicate how accommodating monetary or fiscal policies could be used to drive the economy towards its full employment level.

[15 marks]