

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

SUPPLEMENTARY EXAMINATION PAPER: JULY, 2011

TITLE OF PAPER: MACROECONOMICS

COURSE 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

**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 in macroeconomics
- b) Problems of using GDP per capita as a measure of social welfare
- c) The Classical and the Keynesians LM curves
- d) Autonomous and induced consumption expenditure
- e) Any two types of unemployment

[5 marks each]

Question 2

(a) Consider the following simple macroeconomic model

$$\begin{aligned}\Delta &= C + I + G \\ C &= c_a + cY^d \\ Y^d &= Y - T \\ Y &= \Delta\end{aligned}$$

Where Δ = aggregate demand and all other symbols defined conventionally.

(i) Find the equilibrium income Y_e if: $T = 160$; $G = 100$; $I = 100$;

$$C = 100 + 0.75Y^d$$

[5 marks]

(ii) Calculate the equilibrium value of consumption and disposable income

[8 marks]

(b) Suppose you are given the following information by the Central Statistical Office:

	EMALANGENI (BILLIONS)
Gross domestic product	10,205.6
Receipts of factor income from the rest of the world	342.1
Payment of factor income from the rest of the world	353.2
Depreciation	1,353.3
Indirect taxes minus subsidies plus other	643.3
Corporate profits minus dividends	332.6
Social insurance payments	731.2
Personal interest income received from government consumers	439.1
Transfer payments to persons	1,148.7
Personal taxes	1,306.2

Calculate the following

- (i) The value of GNP
- (ii) The value of Net National Product
- (iii) The value of National Income
- (iv) The value of personal income
- (v) The total of disposable personal income [3 marks each]

Question 3

- (a) What is a customs Union? [3 marks]
- (b) In terms of the Southern African Customs Union what benefits accrue to Swaziland by being a member of the union? [9 marks]
- (c) What benefits is Swaziland getting from being a member of the Common Monetary Area (CMA)? [13 marks]

Question 4

- (a) What is the Spending multiplier? [3 marks]
- (b) Show how an increase in autonomous spending is likely to affect income and interest rate in the IS/LM analysis of a simple economy? [10 marks]
- (c) What is meant by monetary accommodation? Demonstrate how this could be used to stabilise effects of a fiscal expansion. Use the IS/LM presentation.

SECTION B

Question 5

Write explanatory notes on the following:

- (a) Passive and active policy making
 - (b) Bracket creep and indexation
 - (c) Internal and external balance
 - (d) Functions of the foreign exchange market
 - (e) Underlying and initiating factors in the inflationary process
- [5 marks each]

Question 6

- (a) Explaining clearly derive the aggregate demand curve. [10 marks]
- (b) Using the AD/AS model, analyse the effect of an increase in government spending on equilibrium income. [15 marks]

Question 7

- (a) With reference to the Swazi situation, explain why continuous increases in inflation and unemployment are detrimental? [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) Explain what is implied to say inflation is unanticipated. Discuss two possible causes of unanticipated inflation and indicate the redistribution effects that could arise from inflation being unanticipated. [15 marks]
- (b) Present and discuss clearly the policy implications portrayed by the "Standard Phillips Curve". [5 marks]
- (c) What is inflation targeting? [5 marks]