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UNIVERSITY OF SWAZILAND

DEPARTMENT OF ECONOMICS

SUPPLEMENTARY EXAMINATION JULY 2011/2012

TITLE PAPER   :   **PRINCIPLES OF MACROECONOMICS**

COURSE CODE   :   **ECON 104**

INSTRUCTIONS   :   **1. ANSWER TWO QUESTIONS IN SECTION A AND TWO QUESTIONS IN SECTION B.**

                                         2. ALL QUESTIONS CARRY 25 MARKS EACH.

                                         3. DECIMAL NUMBERS ARE TO BE ROUNDED TO TWO (2) DECIMAL PLACES.

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

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

SECTION A

QUESTION 1

Discuss the concept of equilibrium and Keynesian unemployment and provide graph.

(25 marks)

QUESTION 2

2.1   Discuss the following hypotheses:

      (i)   Absolute income hypothesis.
      (ii)   Relative income hypothesis.
      (iii)   Permanent income hypothesis.

                             (12)

2.2   Briefly describe the main determinants of investment.

                             (13)

(25 marks)

QUESTION 3

Distinguish between the following concepts:

    a) Direct and Indirect taxation   (5)
    b) Cost-push inflation and demand-full inflation.   (5)
    c) Active balance and idle balance   (5)
    d) Describe the demand and supply for money and give diagramme (10)

(25 marks)

QUESTION 4

Briefly discuss the concepts of the ISLM (IS ... LM) model of economy.   *(25 marks)*

SECTION B

QUESTION 5

Derive the IS curve and explain its construction.   *(25 marks)*

QUESTION 6

6.1   Discuss the main characteristics of the Swaziland economy.   (16)

6.2   Differentiate between short-term and long-term consumption.   (9)

(25 marks)

QUESTION 7

Give a circular flow diagramme indicating the view of the economy and discuss. *(25 marks)*

QUESTION 8

8.1   Why prices are important in the functioning of the markets.   (10)

8.2   Briefly describe the main approaches used to measure DGP.   (15)

(25 marks)