

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

MAIN EXAMINATION PAPER: MAY, 2012

**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. Show all relevant workings to your answer
3. All Questions carry a total of 25 marks

SPECIAL REQUIREMENTS: SCIENTIFIC CALCULATOR

**DO NOT OPEN THIS QUESTION PAPER UNTIL INSTRUCTED TO DO SO BY
THE INVIGILATOR.**

SECTION A

Question 1

- (a) Define the meaning of macroeconomics. Explain the three principal issues that are of concern to macroeconomists. [12 marks]
- (b) Explain the three approaches to measuring output in the economy and state why they should always be equal. [13 marks]

Question 2

- (a) Economists specify two broad macroeconomic policies that are used to achieve the basic macroeconomic objectives. Discuss what these macroeconomic policies are, clearly explaining what each of them entails. [10 marks]
- (b) Compare and contrast the conclusions reached by the Classical school of thought and the Keynesian school of thought. [12 marks]
- (c) Why do Classical economists suggest that "inflation was an easily explained phenomenon"

Question 3

- (a) Suppose that the government of Swaziland is enjoying a budget surplus with fixed government expenditures of $G = 100$ and fixed taxes of $T = 200$. Assume that consumers in the economy behave as described in the following consumption function:

$$C = 150 + 0.75(Y - T) \quad G = 60$$

Suppose further that investment spending is fixed at 100

- i. Calculate the equilibrium level of GDP in Swaziland. [4 marks]
- ii. Solve for consumption and savings at equilibrium. [4 marks]
- iii. Suppose that parliament succeeds in reducing taxes by 20, what would be the new equilibrium level of Y, C, and S? [6 marks]
- iv. What arguments are likely to be used in support of such a tax cut? [3 marks]

(b) Assume the following for the economy of a country

$$C = 85 + 0.5Y_d$$

$$I = 85$$

$$G = 60$$

$$T = 40 + 0.25Y$$

$$Y_d = Y - T$$

$$Y = C + I + G$$

Solve for equilibrium income and determine how much the government collects in net taxes when the economy is in equilibrium. [8 marks]

Question 4

- a) Define economic growth. [2 marks]
- b) List and explain four problems associated with GDP as a measure of total production in the economy. [8 marks]
- c) Define the business cycle and mention the four elements of a complete business cycle. [6 marks]
- d) Discuss the three views to the causes of the business cycle.

SECTION B

Question 5

- (a) Distinguish between the individual costs of unemployment and the costs to society as a whole. [8 marks]
- (b) Discuss the following statement "An increase in real production is a necessary but not sufficient condition for reducing unemployment. [5 marks]
- (c) Discuss the policies that can be implemented to reduce unemployment in Swaziland. [12 marks]

Question 6

- a) Define a monetary transmission mechanism. [3 marks]
- b) Explain why the link between interest rate and investment spending is important in the monetary transmission mechanism. [3 marks]
- (c) Using the AD-AS model, explain with the aid of diagrams how an increase in the interest rate will affect the level of prices, production and income in the economy? [12 marks]
- (d) Explain, with the aid of a diagram, why policy makers can not solve the stagflation dilemma using only demand management policies (i.e. monetary and fiscal policies)? [7 marks]

Question 7

- a) Explain why policy makers regard inflation as a problem? [8 marks]
- b) Distinguish three main types of costs of inflation and give examples of each. [9 marks]
- c) Explain with the aid of diagrams, what policy measures can be used to combat cost push inflation and demand pull inflation respectively. [8 marks]

Question 8

- a) What is an economic agreement? [3 marks]
- b) What is a customs union? Outline the benefits that accrue to Swaziland for being a member in the Southern African Customs Union (SACU). [10 marks]
- c) What are the common features of a monetary area? Discuss five benefits that Swaziland derives from its membership in the CMA. [12 marks]