UNIVERSITY OF SWAZILAND
FACULTY OF SOCIAL SCIENCE
DEPARTMENT OF ECONOMICS

SUPPLEMENTARY EXAMINATION PAPER : JULY, 2013

TITLE OF PAPER: MACROECONOMICS
CORSE CODE: ECON 203/IDE ECON 203

INSTRUCTIONS

1. ANSWER **Question 1** and any other **one** question in Section A and any **two** questions in Section B making a total of **FOUR** questions answered.
2. All questions carry equal total marks of 25 each
3. Time allowed for the examination is **THREE** hours

SPECIAL REQUIREMENTS: SCIENTIFIC CALCULATOR

DO NOT OPEN THIS PAPER UNTIL THE INVIGILATOR HAS GRANTED PERMISSION

SECTION A

Question 1 (COMPULSORY)

(a) What are the common attributes of a common monetary area? [5 marks]

(b) What are the major benefits of the Southern African Customs Union to its (SACU)? What factors threaten the long term viability of this integration?
[20 marks]

Question 2

a) Graphically derive the IS curve. State all assumptions made. [10 marks]

b) What determines the slope of the IS curve? [6 marks]

c) Using the IS/LM framework explain the concept of "crowding out"
[9 marks]

Question 3

(a) What factors have led to the continuous increase in the rates of inflation and unemployment in Swaziland over the recent past? [10 marks]

(b) With reference to the Swaziland situation, explain why continuous increases in inflation and unemployment are detrimental? [10 marks]

(c) Why is the unemployment ratio regarded as an inadequate measure of the unemployment rate? [5 marks]

Question 4

(a) Explain the meaning of the statement "inflation was unanticipated". Discuss two possible redistribution effects of unanticipated inflation.
[12 marks]

(b) Describe carefully the relationship explained by the "standard Phillips curve" [13 marks]

SECTION B

Question 5

Write short notes on any five of the following:

(a) Monetary- fiscal policy mix
(b) Monetary transmission mechanism
(c) Inside and outside lags
(d) Monetizing budget deficits (accommodating policies)
(e) Three ranges of the aggregate supply curve
(f) Static and dynamic analysis

[5 marks each]

Question 6

(a) Distinguish between a spot rate and a forward rate of exchange.
[4 marks]

(b) Discuss the main attributes and functions of a foreign exchange market.
[16 marks]

(c) How does a fixed exchange rate system impose monetary discipline on a country practicing it? [5 marks]

Question 7

(a) Distinguish between the current account and the capital account.
[5 marks]

(b) Using the IS/LM framework incorporating the foreign sector demonstrate how a policy dilemma with a trade deficit could be addressed using tariffs and the money supply. [20 marks]

Question 8

(a) Discuss the different views to the causes of business cycles.
[12 marks]

(b) The success of stabilisation policy used by policy makers to smooth out business cycles is greatly influenced by uncertainty and policy lags in implementation. Discuss using appropriate examples. [13 marks]