

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

SUPPLEMENTARY EXAMINATION PAPER: JULY, 2014

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
3. BEGIN A NEW QUESTION ON A NEW PAGE

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HAS GRANTED PERMISSION**

SECTION A

Question 1

- a) How did Classical economists explain the existence of short term unemployment? [8 marks]
- b) What role do interest rates play in the classical model? [4 marks]
- c) Discuss why the classical economists believed that a market economy would automatically tend toward full employment? [5 marks]
- d) What flaws did Keynes find in the Classical theory's wage flexibility argument? [8 marks]

Question 2

- (a) Distinguish between a spot and a forward rate of exchange in the foreign exchange market. [6 marks]
- (b) Using appropriate graphs demonstrate how an increase in aggregate autonomous spending would affect equilibrium income and interest rates. [10 marks]
- (c) Outline the advantages of a fixed exchange rate system. [9 marks]

Question 3

- a) Explain why the aggregate demand curve is downward sloping? [6 marks]
- b) Why doesn't an increase in aggregate expenditures cause the price level to increase in the aggregate expenditure model of equilibrium national income determination? [5 marks]
- c) Using the AD/AS framework, derive the equilibrium level of income and state how this equilibrium compares with that of the IS/LM model? [14 marks]

Question 4

(a) Distinguish between expenditure switching and expenditure reducing policies. [5 marks]

(b) Discuss four functions of the foreign exchange market. [15 marks]

(c) Explain how importers could actually take advantage of the foreign exchange market in their conduct of business? [5 marks]

SECTION B

Question 5

Write explanatory notes on the following:

- (a) Costs of inflation**
- (b) Problems of GDP as a measure of social welfare**
- (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) Explain the three key issues that macroeconomics seeks to address.

[12 marks]

(b) Explain how each of the issues in (a) above are measured and why the measures used can often misstate the true incidence of these issues in an economy.

[13 marks]

Question 8

(a) Discuss the economic, social and political challenges that threaten long term economic growth in Swaziland.

[25 marks]