QUESTION 5

a) Distinguish between a liquidity trap and the crowding out of investment. **(8)**

b) Provide a brief outline of the Tinbergen's rule and a policy mix in the IS-LM model. **(5)**

c) Using appropriate diagram(s), explain the conditions under which an expansionary fiscal policy (in a closed economy) is completely ineffective in correcting economic instability. **(8)**

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QUESTION 1

Compare and contrast the macroeconomic views presented by the monetarist and rational expectations schools of thought. **(25)**

QUESTION 2

a) The government of Swaziland is recovering from a serious fiscal crisis that affected the country's economic performance. It was reported in newspapers that expenditure far exceeded the revenue available. The, then, minister of finance hinted that his government would borrow domestically (from the private sector and draw down reserves from the central bank) in order to finance the deficit.

   i) As an economist, what advice would you have given the minister on the likely problems the economy would face if he only relied on this particular type of deficit financing? **(6)**

   ii) What are the other means/options that the government of Swaziland could use in order to finance a deficit? Also outline the major problems associated with each of these deficit financing options. **(12)**

b) Due to the financial crises that affected Swaziland the, then, members of parliament voted for a fiscal stimulus to overcome the crises. Explain using the IS-LM model how the desired objective would have been achieved. **(7)**

QUESTION 3

Discuss fully how the wage setting in the labor market interacts with the price setting in the product market. **(25)**

QUESTION 4

a) Consider an open economy operating under a flexible exchange rate regime. Assume that in this economy capital is mobile. Describe how the internal and external equilibria of the economy will be determined if the economy undertakes an expansionary fiscal policy. Illustrate your answer with the aid of a diagram. **(12)**

b) Outline how an economy operating under a floating exchange rate regime would perform if capital is immobile and it conducts an expansionary monetary policy. **(13)**

UNIVERSITY OF SWAZILAND

FACULTY OF SOCIAL SCIENCE

DEPARTMENT OF ECONOMICS

MAIN EXAMINATION

MAY 2014

TITLE OF PAPER: INTERMEDIATE MACROECONOMIC THEORY

COURSE CODE: ECON 304

TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS: 1. ANSWER FOUR (4) QUESTIONS:

2. ALL QUESTIONS CARRY 25 MARKS

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