

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ECONOMICS
MAIN EXAMINATION MAY 2014

PAPER TITLE : STRUCTURE OF THE SWAZI ECONOMY
COURSE CODE : ECON 428

INSTRUCTIONS:

1. ANSWER ONE QUESTION FROM EACH SECTION
2. ALL QUESTIONS CARRY 50 MARKS EACH

TIME ALLOWED: THREE (3) HOURS

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

SECTION A

Question 1(Compulsory)

(a) Consider the following table about a hypothetical economy

	Base Year	Later Year
Price of good A	100	200
Quantity of good A	100	200
Price of good B	100	100
Quantity of good B	100	100

- I. Compute nominal GDP in the base year and later year. [3 marks]
- II. Compute real GDP in the base year and later years (in base year's prices) [3 marks]
- III. Compute the GDP deflator in the later year. [1 mark]
- IV. Compute the CPI in the later year. [1 mark]

(b) Explain why the CPI may actually overstate the level of inflation? [2 marks]

c)

Consider the following macroeconomic model

$$\begin{aligned}
 C &= 250 + 0.75Y_d \\
 I &= 100 + 0.1Y - 30i \\
 G &= 200 \\
 T &= -20 + 0.2Y \\
 Y_d &= Y - T \\
 Y &= C + I + G \\
 M_s &= 500 \\
 M_d &= 10 + 0.4Y - 50i \\
 M_s &= M_d
 \end{aligned}$$

Derive the IS equation, LM equation and determine the level of income and interest rate at equilibrium. [15 marks]

Question 2

- (a) Distinguish between the two broad classes of macroeconomic policy [6 marks]**
- (b) Using appropriate graphs, compare the effects of an expansionary fiscal policy on equilibrium income in the Simple Keynesian model and the IS/LM model of income determination. [15 marks]**
- (c) What are automatic stabilizers? Give an example. [4 marks]**

Question 3

- a). Explain how the economy adjusts to the equilibrium level of national income when the actual level of national income is below and above the equilibrium level of national income? What assumption is made about prices in this analysis? [15 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) Explain the logic of the multiplier. [3 marks]**
- d). Do Keynesian economists think that saving is a bad thing? [2 marks]**

Question 4

- (a) The Swaziland economy is said to be open and well diversified. What does such a statement imply? [3 marks]**
- (b) Define a customs union and explain how the Southern African Customs union works to the benefit of its members? [12 marks]**
- (c) Outline the options available to Swaziland to reduce her over-reliance on SACU receipts for financing the national budget. [10 marks]**

SECTION B

Question 5

Write explanatory notes on the following:

- (a) stocks and flows**
- (b) current and capital accounts of the balance of payments.**
- (c) Rules vs. discretion in policy making**
- (d) Neutrality of money and Sticky wages**
- (e) Inside lag and Outside lag in policy formulation**

[5 marks each]

Question 6

a) Explain why Keynes rejected the views of the classical economists.

[15 marks]

b) Compare the views of Keynes and the classical economists with regard to the proper role of government.

[10 marks]

Question 7

(a) Define unemployment and discuss any three types of unemployment.

[10 marks]

(b) The youth and the rural dwellers are said to be the most seriously affected by unemployment in Swaziland. Discuss the current initiatives undertaken by the government to combat this problem.

[15 marks]

Question 8

(a) Why is the AD curve downward sloping? What is the significance of the slope in macroeconomic analysis?

[5 marks]

(b) What determines the extent of changes in output and prices in the AD/AS model?

[5 marks]

(c) Using the AD/AS model demonstrate how an adverse supply shock affects equilibrium output and prices. Indicate how accommodating monetary or fiscal policies could be used to drive the economy towards its full employment level.

[15 marks]