

UNIVERSITY OF SWAZILAND
FACULTY OF SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS
MAIN EXAMINATION 2014/2015

TITLE OF PAPER : PRINCIPLES OF MACROECONOMICS
COURSE CODE : ECON 104 /IDE ECON 104
TIME ALLOWED : THREE (3) HOURS

INSTRUCTIONS :

- 1. ANSWER ALL QUESTIONS IN SECTION A**
- 2. ANSWER ONE (1) QUESTION IN SECTION B**
- 3. A MULTIPLE CHOICE ANSWER SHEET IS PROVIDED FOR QUESTION 1**
- 4. INSERT THE MULTIPLE CHOICE ANSWER SHEET IN YOUR ANSWER BOOKLET.**

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SECTION A (ANSWER ALL QUESTIONS IN THIS SECTION)

QUESTION 1 (Each Multiple Choice Question is 2 Marks)

1. Gross Domestic Product (GDP) may be defined as:
 - a) the monetary value of all goods and services (final, intermediate and non-market) produced in a given year
 - b) total resource income less taxes, saving and spending on exports
 - c) the economic value of all economic resources used in the production of a year's output
 - d) the market value of all final goods and services produced within a nation in a specific year

2. Saving equals
 - a) disposable income minus taxes
 - b) disposable income minus consumption spending
 - c) disposable income minus savings
 - d) consumption spending minus savings

3. Which of the following is an example of fiscal policy?
 - a) a reduction in the federal funds rate
 - b) a reduction in the money supply
 - c) a reduction in lump-sum taxes
 - d) an increase in the physical stock of capital

4. Which of the following would shift the aggregate demand curve to the right?
 - a) an increase in government spending
 - b) an increase in taxes
 - c) an increase in interest rates
 - d) an increase in input prices

5. Without an accepted medium of exchange, people
 - a) have to specialize in one area of production
 - b) have to rely on gold or silver in order to exchange goods and services
 - c) have to resort to barter in order to exchange goods and services
 - d) can efficiently obtain goods and services

6. If the Central Bank wants to increase the money supply in an economy, it would
 - a) decrease the reserve ratio
 - b) increase the interest rates
 - c) increase the number of banks in the country
 - d) decrease the level of M3

7. The equation $C = 35 + 0.75Y$, where C is consumption and Y is disposable income, shows that:
- households will consume 75% of whatever level of disposable income they receive
 - households will consume E35 if their disposable income is zero (0), and will consume 75% of any increase in disposable income they will receive
 - there is an inverse relationship between disposable income and consumption
 - households will save E35 if their disposable income is zero (0) and will consume 75% of any increase in disposable income they receive
8. If the Marginal Propensity to Consume (MPC) in an economy is 0.5, the government can increase national income by E100 million by:
- increasing government spending by E100 million
 - increasing government spending by E50 million
 - decreasing government spending by E100 million
 - decreasing government spending by E50 million
9. A budget deficit occurs when:
- there is an increase in taxation
 - government decides to build more stadiums and hospitals
 - government spending is very high
 - government spends more than it collects in taxes
10. To be considered officially unemployed, a person must be at least 16 years old
- and not working
 - and not in school and not working
 - and be a discouraged worker
 - and not working but is actively seeking employment
11. Unemployment that is caused by business recessions is called
- frictional unemployment
 - cyclical unemployment
 - seasonal unemployment
 - structural unemployment
12. Keynes argued that because of sticky prices and wages
- the aggregate supply curve is horizontal
 - the aggregate supply curve is vertical
 - the aggregate supply curve slopes downward
 - the aggregate demand curve is vertical
13. Which of the following represent expansionary fiscal policy?
- a reduction in government spending
 - an increase in average individual income tax rates
 - a cut in corporate income tax rates

- d) an increase in marginal individual income tax rates
14. Without an accepted medium of exchange, people
- a) have to specialize in one area of production
 - b) have to rely on gold or silver in order to exchange goods and services
 - c) have to resort to barter trade in order to exchange goods and services
 - d) can efficiently obtain goods and services
15. Under a fractional reserve banking system,
- a) banks keep a fraction of their deposits on hand as reserves
 - b) banks keep a fraction of their reserves on hand as deposits
 - c) banks keep all of their deposits on hand as reserves
 - d) banks keep all of their reserves on hand as deposits
16. The interest rate is the opportunity cost
- a) of investing in stocks
 - b) of investing in Treasury securities
 - c) of using credit cards
 - d) of holding money
17. The price of bonds and the interest rate are
- a) inversely related
 - b) positively related
 - c) unrelated
 - d) related, but we are not sure how
18. A citrus fruit picker who is out of work in the winter is
- a) frictionally unemployed
 - b) structurally unemployed
 - c) cyclically unemployed
 - d) seasonally unemployed
19. Fiscal policy refers to the
- a) manipulation of the money supply in order to increase the amount of paper currency in circulation
 - b) adjustment of government spending and taxes in order to achieve certain national economic goals
 - c) adjustment of national income data to account for price level changes
 - d) changing the way unemployment data is calculated so as to make it appear that unemployment is lower than it actually is

20. Which of the following will **not** cause the consumption schedule to shift
- a sharp increase in the amount of wealth held by households
 - a change in consumer incomes
 - the expectation of a recession
 - a growing expectation that consumer durables will be in short supply
21. Transactions demand for money refers to:
- holding money in order to invest in assets in the future
 - holding money in case an emergency arises
 - money that is held in order to demand goods and services
 - all transactions that take place in the economy
22. Suppose that the marginal propensity to save (MPS) equals 0.8. The value of the multiplier would be
- 0.8
 - 1.25
 - 0.2
 - 5.0
23. An appreciation of the Lilangeni occurs when
- the international price of the Lilangeni falls
 - the international price of the Lilangeni rises
 - Swaziland's demand for foreign currencies increases
 - the supply of Emalangeni in international markets increases
24. In a Flexible exchange rate regime, the value of the currency is determined by:
- the price of the staple food in the country
 - supply and demand of the currency in the foreign exchange market
 - forces that affect the inflation rate in a country
 - none of the above
25. When the government deliberately alters its level of spending and/or taxes in order to achieve specific national economic goals, it is exercising
- monetary policy
 - discretionary fiscal policy
 - exchange rate policy
 - inflation targeting policy

QUESTION 2 (COMPULSORY)

Write short explanatory notes on the following:

- a) Fixed Exchange Rates and Flexible Exchange Rates [7 Marks]
- b) Fiscal Policy and Monetary Policy [7 Marks]
- c) Gross Domestic Product (GDP) and Gross National Product (GNP) [7 Marks]
- d) Structural Unemployment [4 Marks]

SECTION B (ANSWER ONLY ONE (1) QUESTION FROM THIS SECTION)

QUESTION 3

- a) Even though developing countries are similar, there are some features that separate one country from the other. Discuss five (5) features that differ from one developing country to the other. [15 Marks]
- b) The Swaziland Economy is said to be dualistic in nature. Discuss two (2) characteristics of this dualism within the Swazi Economy. [10 Marks]

OR

QUESTION 4

Using the Aggregate Demand/Aggregate Supply (AD/AS) model, graphically illustrate and explain the impact of an increase in Aggregate Demand (AD), given a **Keynesian** (horizontal) Aggregate Supply (AS) curve (Label graph correctly for full marks). [25 Marks]