

**UNIVERSITY OF SWAZILAND**  
**FACULTY OF SOCIAL SCIENCES**  
**DEPARTMENT OF ECONOMICS**  
**SUPPLEMENTARY 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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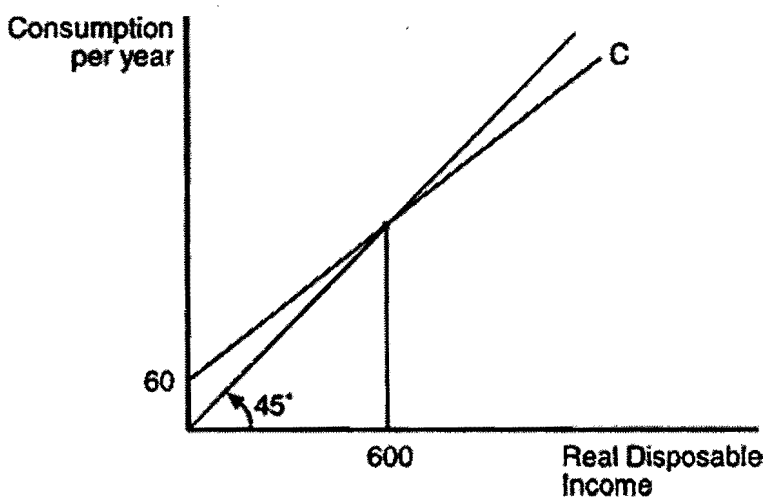
**SECTION A (ANSWER ALL QUESTIONS IN THIS SECTION COMPULSORY)**

**QUESTION 1** (Each Multiple Choice Question is 2 Marks)

1. If the Marginal Propensity to Consume (MPC) in an economy is 0.5, the government can increase national income by E100 million by:
  - a) increasing government spending by E100 million
  - b) increasing government spending by E50 million
  - c) decreasing government spending by E100 million
  - d) decreasing government spending by E50 million
  
2. Keynes argued that because of sticky prices and wages
  - a) the aggregate supply curve is horizontal
  - b) the aggregate supply curve is vertical
  - c) the aggregate supply curve slopes downward
  - d) the aggregate demand curve is vertical
  
3. Saving equals
  - a) disposable income minus taxes
  - b) disposable income minus consumption spending
  - c) disposable income minus savings
  - d) consumption spending minus savings
  
4. The consumption function shows how much
  - a) households plan to consume per year at each level of real disposable income
  - b) households plan to consume per year at each possible interest rate
  - c) real disposable income people will earn at each income tax bracket
  - d) households plan to consume per year at each level of savings
  
5. Money is defined as
  - a) a person's net worth
  - b) anything people generally accept in exchange for goods and services
  - c) a by-product of a barter economy
  - d) any financial instrument that is backed by gold
  
6. Discretionary fiscal policy is defined as:
  - a) attempt by the central bank to influence government policy
  - b) attempts by the government to influence the economy through policy
  - c) intervention by the central bank in the money market
  - d) various forms of inflation targeting policies

7. A budget deficit occurs when:
  - a) there is an increase in taxation
  - b) government decides to build more stadiums and hospitals
  - c) government spending is very high
  - d) government spends more than it collects in taxes
  
8. Unemployment that is caused by business recessions is called
  - a) frictional unemployment
  - b) cyclical unemployment
  - c) seasonal unemployment
  - d) structural unemployment
  
9. 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

**Figure 1 (For Questions 10 – 14)**



10. In Figure 1, when disposable income is greater than 600
  - a) There is dissaving
  - b) Marginal Propensity to consume equals 1
  - c) There is positive saving
  - d) Marginal propensity to save is negative

11. In **Figure 1**, a change in autonomous consumption to from 60 to 80 would cause the consumption function to
- a) become steeper
  - b) become flatter
  - c) shift down
  - d) shift up
12. In **Figure 1**, saving will equal zero when real disposable income equals
- a) 0
  - b) 60
  - c) 700
  - d) 600
13. In **Figure 1**, when real disposable income equals 600
- a) there is dissaving
  - b) consumption is less than disposable income
  - c) real disposable income exceeds consumption
  - d) consumption equals real disposable income
14. In **Figure 1**, when real disposable income is less than 600, then
- a) consumption is less than disposable income
  - b) consumption is more than disposable income
  - c) consumption is the same as disposable income
  - d) the MPC will fall
15. The function of money that allows individuals a method to compare the relative value of goods and services is
- a) medium of exchange
  - b) unit of accounting
  - c) store of value
  - d) liquidity
16. People are Seasonally unemployed when:
- a) they leave their current jobs to search for other jobs
  - b) the economy is temporarily in a recession
  - c) the nature of their job is such that they can be employed only on certain times of the year
  - d) there is a mismatch of the skills they possess and those that are demanded by firms in an economy

17. Country A has a Gini coefficient of 0.65, country B has a Gini coefficient of 0.60, and country C has a Gini coefficient of 0.25. Which statement is **FALSE**?
- a) Country A is more unequal than Country B
  - b) Country B is more equal than Country A but more unequal than Country C
  - c) Country C is more equal than Country B
  - d) Country A is more equal than Country B and Country C
18. A decrease in the variable tax rate in a Keynesian economy with no foreign sector will cause the Aggregate Expenditure (AE) curve to:
- a) Shift upwards
  - b) Shift downwards
  - c) Tilt upwards on the value of autonomous expenditure
  - d) Tilt downwards on the value of autonomous expenditure
19. Given a required reserve ratio of 20 percent, a commercial bank that has received a new deposit of E100 can make additional loans of
- a) E0
  - b) E20
  - c) E80
  - d) E400
20. In the classical aggregate supply case, what is the result of an increase in aggregate demand?
- a) Real GDP increases, and the price level remains constant
  - b) Real GDP decreases, and the price level remains constant
  - c) The price level increases, and real GDP remains constant
  - d) The price level decreases, and real GDP remains constant
21. In a Flexible exchange rate regime, the value of the currency is determined by:
- a) the price of the staple food in the country
  - b) supply and demand of the currency in the foreign exchange market
  - c) forces that affect the inflation rate in a country
  - d) none of the above
22. Full Employment in a country means that:
- a) everybody in the economy is fully employed
  - b) the only type of unemployment existing is frictional unemployment
  - c) the only type of unemployment existing is structural unemployment
  - d) only the disabled, sick, and pensioned are unemployed
23. Which of the following will **not** cause the consumption schedule to shift
- a) a sharp increase in the amount of wealth held by households
  - b) a change in consumer incomes
  - c) the expectation of a recession

- d) a growing expectation that consumer durables will be in short supply
24. A depreciation of the Lilangeni occurs when
- a) the international price of the Lilangeni rises
  - b) the international price of the Lilangeni falls
  - c) Swaziland's demand for foreign currencies decreases
  - d) the supply of Emalangeni in international markets decreases
25. Cost-push inflation is
- a) inflation caused by increases in aggregate demand that generate an even larger increase in aggregate supply
  - b) inflation caused by increases in aggregate demand that are not matched by increases in aggregate supply
  - c) inflation caused by decreases in aggregate supply that generate an even larger decrease in aggregate demand
  - d) inflation caused by decreases in aggregate supply that are not matched by decreases in aggregate demand

## **QUESTION 2 (COMPULSORY)**

Write short explanatory notes on the following:

- a) Leakages and Injections in the circular flow of income [7 Marks]
- b) Fiscal Policy and Monetary Policy [7 Marks]
- c) Gross Domestic Product (GDP) and Gross National Product (GNP) [7 Marks]
- d) Frictional Unemployment [4 Marks]

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

**QUESTION 3**

- a) In a Keynesian closed economy model with government, graphically illustrate and explain the impact of an increase in consumption spending on equilibrium national income (Label graph correctly for full marks). [25 Marks]

**OR**

**QUESTION 4**

- a) Discuss five (5) characteristics of developing countries. [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]