

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

**MAIN EXAMINATION PAPER: MAY, 2015**

**TITLE OF PAPER: MACROECONOMICS**

**CORSE CODE: ECON 203/ IDE- ECON 203**

**TIME ALLOWED: THREE (3) HOURS**

**INSTRUCTIONS**

1. ANSWER FOUR QUESTIONS IN ALL. Question 1 in Section A is compulsory.
2. Choose **one** other question from the remaining three in Section A to make a total of **TWO** Questions.
3. CHOOSE TWO QUESTIONS OF YOUR CHOICE IN Section B
4. ALL QUESTIONS CARRY EQUAL MARKS OF 25 EACH
5. BEGIN A NEW QUESTION ON A NEW PAGE

**DO NOT OPEN THIS PAPER UNTIL THE INVIGILATOR  
HAS GRANTED PERMISSION**

## SECTION A

### Question 1

Assume the following model of the closed economy in the short run, with the price (P) fixed at 1:

$$C = 0.5(Y - T)$$

$$T = 1000$$

$$I = 1500 - 250r$$

$$G = 1500$$

$$M_d/P = 0.5Y - 500r$$

$$M^s = 1000$$

- Write a numerical formula for the IS curve, showing Y as a function of r alone. [2.5 marks]
- Write a numerical formula for the LM curve, showing Y as a function of r alone. [2.5 marks]
- What are the short run equilibrium values of Y, r, and national saving (S)? [5 marks]
- Assume that G increases by 1500. By how much will Y increase in the short run equilibrium? [5 marks]
- You are the chief economic advisor in this hypothetical economy. Do you believe that fiscal policy is more potent than monetary policy? Briefly discuss [Hint: use the slope of the IS and LM curve in (a) and (b)]. [10 marks]

### Question 2

Swaziland's vision to attain first world status may be disturbed by a number of socioeconomic challenges currently facing the country. Discuss any five challenges that may prevent the realisation of this national dream.

### Question 3

- a) What relationship is depicted by an IS schedule? [2 marks]
- b) Derive the goods market equilibrium both algebraically and graphically, making sure to state all assumptions made. [12 marks]
- c) Explain the determinants of the slope of the IS curve. [8 marks]
- d) How do components of aggregate demand affect the IS curve? [4 marks]
- e) What is money? List any three functions of money. [4 marks]

### Question 4

- a) Explain and illustrate graphically how crowding out influences the impact of expansionary fiscal policy. [10 marks]
- b) Use graphs to demonstrate and explain the effectiveness of monetary and fiscal policy in both the Keynesian and the Classical case. [15 marks]

## SECTION B

### Question 5

Write explanatory notes on the following:

- (a) Endogenous and exogenous variables
- (b) Discount rate, reserve ratio and open market operations as instruments of monetary policy
- (c) The policy dilemma
- (d) Weaknesses of GDP as a comparison of standard of living between two countries
- (e) Inside lag and Outside lag in policy formulation

[5 marks each]

### Question 6

(a) Describe frictional and structural unemployment and the factors that may affect these two types of unemployment. [10 marks]

(b) Discuss the three major views to the causes of business cycles. [15 marks]

### Question 7

(a) What is meant by intervention in the foreign exchange market? [2 marks]

(b) What determines the extent to which the central bank has to intervene in a fixed exchange rate system? [5 marks]

(c) Discuss the main advantages and disadvantages of a fixed exchange rate system to a country like Swaziland. [18 marks]

### Question 8

(a) Draw and explain the macroeconomic relationship portrayed by the standard Phillips curve? [10 marks]

(b) Use the Friedman- Phelps argument to explain why the long-run Phillips curve is vertical? [15 marks]