

UNIVERSITY OF SWAZILAND
FACULTY OF SOCIAL SCIENCE
DEPARTMENT OF ECONOMICS

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SUPPLEMENTARY EXAMINATION PAPER: JULY, 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

- a) What is the opportunity cost of holding money? [2 marks]
- b) Mention the three motives for holding money distinguished by John Maynard Keynes. [3 marks]
- c) Use diagrams to illustrate how the total demand for money in the economy is made up. [10 marks]
- d) Mention and discuss three functions of money. [10 marks]

Question 2

- a) Define what is meant by a trade agreement. [2 marks]
- b) Give a clear explanation of a customs union and a common monetary area. [5 marks]
- c) What is meant by seignorage? Explain the economic benefits that Swaziland receives from being a member of the Common Monetary Area. [10 marks]
- d) In what way is the unemployment rate a challenge to Swaziland? [8 marks]

Question 3

- a) Define what is meant by potential output, also called the the natural level of GDP. [2 marks]
- b) Explain the basic components of stabilisation policy. [8 marks]
- c) Define aggregate demand using a hypothetical AD curve. Explain the three effects that cause the AD curve to slope downwards. [15 marks]

Question 4

Explain the basic assumptions of the Classical School of Thought that dominated macroeconomic thinking before the Great Depression and explain why the severity of the depression struck a major blow to this view? [25 marks]

SECTION B

Question 5

The economy of Swaziland recorded positive growth rates in the 1980's and early 1990's.

- i. What factors attributed to this positive growth during this period?
[12 marks]
- ii. What caused a change to the positive growth observed during the period cited above in recent times?
[13 marks]

Question 6

a) Explain the following exchange rate systems

- i. Free floating system
- ii. Managed float system
- iii. Fixed exchange rate system [5 marks each]

b) Why is the functioning of a fixed exchange rate system likened to a price support system in an agricultural market? State and explain any two advantages of a fixed exchange rate system. [10 marks]

Question 7

a) What is meant by the business cycle? Why is the study of the trade cycle so central in macroeconomics. [5 marks]

b) Stabilization policy has been presented as a remedy to the problem of business cycles. However, critics of stabilization policy have argued that sometimes it takes longer for policy makers to identify and prescribe remedies to business cycles, such that the policies end up achieving less than expected. Discuss the problems that are associated with the formulation and implementation of stabilisation policies. [20 marks]

Question 8

a) Macroeconomic theory identifies two types of policy lags, inside lag and outside lag. Explain these lags and state how these lags differ in the case of fiscal and monetary policy? [15 marks]

b) Discuss three possible redistribution costs of inflation and give three possible measures undertaken by the Swaziland government to curb the problem of unemployment. [10 marks]