

University of Swaziland
Faculty of Social Science
Department of Economics
Final Examination Paper, May 2016

Title of paper : **Principles of Macroeconomics**
Course Code : **ECO 102/IDE ECON 104**
Time allowed : **Two (2) hours**
Instructions : **Answer questions one and any other two questions.**

Do not open this paper until the invigilator has granted permission.

Question 1 [COMPULSORY QUESTION]

- a) Outline the three methods of measuring economic activity (Gross Domestic Product).
(12 marks)
- b) Given the following data, demonstrate that all the three approaches of calculating GDP lead to the same answer.

Taxes Paid to government	E 5 000
Revenue received from the sale of oranges	E 35 000
oranges sold to public	E 10 000
Oranges sold to Swazi Juice Canners	E 25 000
Swazi Juice Canners' Transactions	
Wages paid to employees	E 10 000
Taxes paid to government	E 2 000
oranges purchased from Tambankulu Estates	E 25 000
Revenue received from sale of orange juice	E 40 000

- (9 marks)
- c) What may cause the methods not to give the same value of GDP?
(4 marks)
- d) Why is GDP said not to be an appropriate indicator of a country's standard of wellbeing?
(5 marks)

ANSWER ANY TWO (2) QUESTIONS FROM THE FOLLOWING:

Question 2

- a) The following table summarizes some macroeconomic quantities of a country called Slovenia:

Planned investment	$I=200$
Government purchases	$G = 400$
Exports	$X =100$
Imports (as a function of Y)	$M = mY$
Autonomous taxes	$T = 200$
Autonomous consumption	$a = 50$

Let b denote the marginal propensity to consume of the country.

In Slovenia there is an income tax: let t be the income tax ratio.

Let m be the imports-to-income ratio of this economy,

- i. Show the multiplier of Slovenia, as a function of b , t and m .(6 marks)
- ii. Assume the following values for each of the variables:

$$b=0.8, \quad m=0.1, \quad t=0.042$$

What is the numerical value of the multiplier of this economy? (3 marks)

- b) Discuss any three assumptions of the simple Keynesian model of income determination. (6 marks)
- c) Outline the major propositions of the Keynesian School of Thought. (10 marks)

Question 3

- a) What principles should govern the design of an efficient and equitable tax system? (12 marks)
- b) Explain the meaning and graphically show progressive, proportional and regressive tax systems. (13 marks)

Question 4

Assume the consumption schedule for an open economy is $C = 100 + 0.75Y$. Assume further that planned investment (I_g); net exports (X_n); and government spending (G) are independent of national income and constant at:

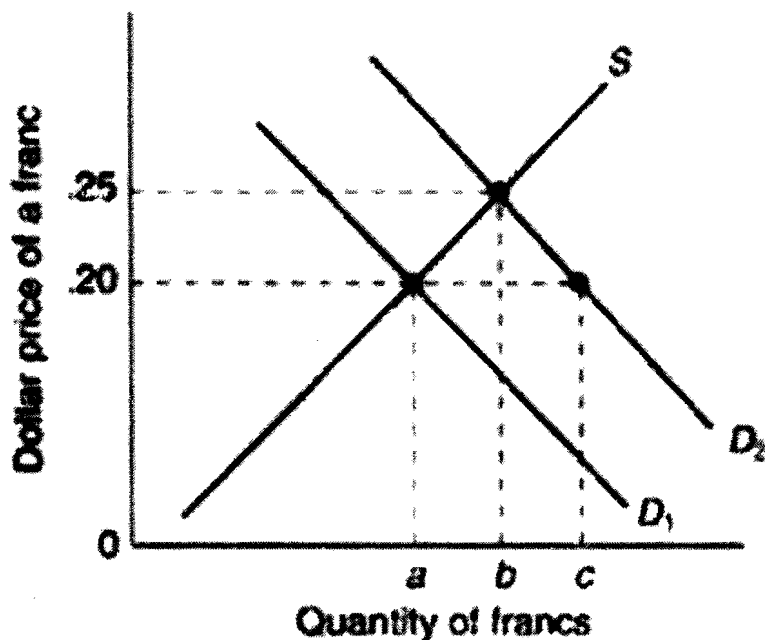
$$I_g = 35; X_n = 15; G = 100.$$

- a) Calculate the equilibrium level of income. (5marks)
- b) Assume I_g changes by 50, calculate the new equilibrium income. (5marks)
- c) Determine the value of the multiplier. (5marks)]
- d) What is the significance of a multiplier in an economy? (2marks)
- e) Explain the 'Quantity Theory of Money' (8marks)

Question 5

a) Differentiate between discretionary fiscal policy and non-discretionary policy (or built-in stabilization). (5marks)

b) The graph below shows a change in the demand for Swiss francs from D_1 to D_2 . What would happen when D_1 shifted to D_2 under a flexible exchange rate system compared to a fixed exchange rate system? (6marks)



c) Distinguish between depreciation and devaluation of a currency. (4marks)

d) You are a Swazi consumer who wants to buy a laptop produced in the United States of America. The price of the laptop is \$300. If the Lilangeni appreciates against the Dollar, will the laptop be cheaper or more expensive? Use a numerical example to explain.

(5marks)

e) Outline the direct tools that central banks use to control the money supply.

(5 marks)