University of Swaziland

Faculty of Social Sciences

Department of Economics

Re-Sit / Supplementary Examination Paper, July 2016

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

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

Question One (Compulsory)

I. MULTIPLE CHOICE QUESTIONS. CHOOSE CORRECT ANSWER AND WRITE IT IN THE ANSWER BOOK (1 MARK EACH = 10 MARKS)

1. Which of the following is not an example of a built-in stabilizer?
   a) VAT
   b) Inflation
   c) Income Tax
   d) Unemployment Benefits
2. If the price level increases by 20%, the value of money decreases by
   a) 14.14%
   b) 16.67%
   c) 20%
   d) 25%
3. Which of the following is more likely to be affected by changes in the rate of interest?
   a) Consumer spending
   b) Investment spending
   c) Government spending
   d) The exports of the economy
4. To keep the value of money fairly constant, the Central Bank:
   a) Uses price and wage controls
   b) Employs fiscal policy
   c) Controls the money supply
   d) Buys stock

5. Which one tends to be a progressive tax?
    a) Income tax
    b) Property tax
    c) Sales tax
    d) None of the above
6. With respect to income, a general sales tax is considered as:
    a) A direct tax
    b) A progressive tax
    c) A proportional tax
    d) None of the above
7. A bank receives a demand deposit of E1, 000. The bank loans out E600 of this deposit and increases its excess reserves by E300. What is the legal reserve requirement?
    a) 10 percent
    b) 20 percent
    c) 60 percent
    d) 70 percent
8. The agency directly responsible for monetary policy in Swaziland is:
    a) Central Bank of Swaziland
    b) Minister of Finance
    c) Swaziland Revenue Authority
    d) Any commercial bank
9. The current account deficit will occur when
    a) Imports are greater than exports
    b) Exports are greater than imports
    c) Imports are equal to exports
    d) There is a rise in exports

10.Which of the following describes the relationship between GDP and government spending in an open economy?

a) Government spending = GDP + consumption + private investment-export-imports
b) Government spending = GDP - consumption - private investment-export-imports
c) Government spending = GDP - consumption - private investment+ export+ imports
d) Government spending = GDP - consumption - private investment - export + imports

II. FILL IN THE BLANKS. WRITE THE CORRECT ANSWER IN THE ANSWER BOOK

(1 MARK EACH = 10 MARKS)

1. In an open economy, a nation's net exports are equal to exports ____________ its imports.
2. Increases in public spending will ________________ the aggregate expenditures schedule and ____________ equilibrium real GDP.
3. When people are holding less money than they would like to hold they attempt to _________ their money holdings by _________ bonds.
4. Introducing induced imports ______________ the size of the multiplier in the aggregate-expenditure model.
5. To increase money supply, the Central Bank can_____________ the reserve ratio.
6. When there is an increase in the supply of money, the real interest rate___________.
7. An alternative form of government borrowing through the central bank by the issue of government stock is known as ______________.
8. If the government wishes to increase the level of real GDP when some of the resources are remaining under-utilized, it might_________ taxes.
9. The excess of government expenditure over tax revenue is known as the_________.
10. The quantity of money demanded will be ____________ when the interest rate is high.

III. TRUE OR FALSE STATEMENTS. INDICATE 'TRUE' OR 'FALSE' IN THE ANSWER BOOK. (1 MARK EACH = 10 MARKS)

1. An increase in imports of a nation will increase its national output and aggregate spending in the economy.
2. Transactions demand for money arises because households and business firms use money as a store of value.
3. Reserve requirements permit the Central Bank of Swaziland to control the lending ability of commercial banks.
4. Credit cards are a form of money.
5. The selling of government bonds/ securities will increase the money supply.
6. A tax is regressive when the average tax rate decreases as income increases.
7. Cash holdings are part of the asset demand for money.
8. The current account captures all flows with regard to goods and services.
9. Exchange rate depreciation stimulates demand for imports.
10. A progressive tax system is a useful tool for income redistribution.

Question Two

a) What factors might cause aggregate demand to increase?

(10 marks)

b) What functions must a commodity fulfill to be useful as money?

(5marks)

c) You are a local producer who wants to sell your products in the United States of America. The price of your product is E5000. If the Lilangeni appreciates against the Dollar, will your product look cheaper or more expensive to US consumers? Use a numerical example to explain. If local producers are competing against producers in other countries where there has been no change in the exchange rate, will they be better or worse off?

(5marks)

d) With the aid of a diagram, explain how the exchange rate gets determined in a flexible exchange rate system.

(5marks)

Question Three

a) What are the features of proportional, progressive and regressive taxes?

(3marks)

b) Discuss the criteria used to determine the effectiveness of a tax system.

(12marks)

c) Distinguish between fixed exchange rates and flexible exchange rates.

(5marks)

d) What are the main objectives of monetary policy in Swaziland?

(2marks)

e) State and explain the motives/ demand for holding money and the factors which affect such motive. (3marks)

Question 4

a) Distinguish between anticipated and unanticipated inflation. (5 marks)

b) What are the costs of inflation to society? (10 marks)

c) Explain the meaning of demand-pull and cost-push inflation. (10 marks)

Question 5

a) The value of National Output can be calculated using three approaches, i.e., the Product, Income, and Expenditure approaches.

i. Differentiate between the Product and the Income approaches to measuring the value of National Output. (6 marks)

ii. Do the two approaches (Income and Product) give the same figure for the value of National Output. Why or how? (4 marks)

iii. List six uses of National Income figures (6 marks)

iv. Discuss any three of the uses of National Income figures listed in (iii) above. (9 marks)