

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

MAIN EXAMINATION PAPER: MAY 2016

TITLE OF PAPER: MACROECONOMICS

COURSE CODE: ECON 203 / IDE – ECON 203

TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

- 1. ANSWER FOUR QUESTIONS IN ALL.**
- 2. CHOOSE ANY TWO QUESTIONS IN SECTION A AND TWO FROM SECTION B.**
- 3. ALL QUESTIONS CARRY EQUAL MARKS OF 25 EACH**
- 4. BEGIN A NEW QUESTION ON A NEW PAGE**

REQUIREMENTS

- 1. SCIENTIFIC CALCULATORS**

**DO NOT OPEN THIS PAPER UNTIL YOU HAVE BEEN
INSTRUCTED TO DO SO**

SECTION A

Question 1

- a) Derive the equation for the IS curve, clearly explaining all assumptions made. [10]
- b) Derive the equation for the LM curve [7]
- c) State and explain the assumptions underlying the Simple Keynesian model. [8]

Question 2

- a) Explain what is meant by internal and external balance. Why is it desirable to have both? [5]
- b) Monetary and Fiscal policy are stabilization policies used to achieve certain macroeconomic objectives. Outline these objectives and clearly explain how each of them is measured? [20]

Question 3

Write explanatory notes on the following economic terms. Your response should show full understanding of the concept and how it applies to macroeconomics.

- a) Monetising budget deficits
- b) Inflation indexation
- c) The business cycle
- d) Leading and coincident indicators
- e) Wealth budget constraint [5 Marks Each]

Question 4

- a) What is meant by balance of payments (BOP)? [5]
- b) Using the IS-LM framework incorporating the foreign sector demonstrate how a policy dilemma with a trade deficit could be addressed using tariffs and the money supply. Clearly explain the monetary transmission mechanism. [15]
- c) In what way are government budget deficits harmful to an economy? [5]

SECTION B

Question 5

- a) Policy makers can also cause disturbance in an economy. Explain how this is possible? [5]
- b) “Too little too late” is a favourable lament of those who criticize stabilization policy. Explain what makes government stabilization policy to be criticized so much? [15]
- c) Explain why fiscal policy is said to have a longer inside lag compared to monetary policy. [5]

Question 6

- a) Discuss the theory underlying the demand pull and cost push theories of inflation. [10]
- b) Discuss clearly, with illustration, the relationship portrayed by the Standard Phillips Curve. Also explain the criticisms levelled by Friedman and Phelps against the Standard Phillips Curve. [15]

Question 7

- a) What are the main assumptions underlying the AD-AS model? Outline the implication of each of the assumptions to the determination of equilibrium income. [10]
- b) Given that in a particular year the government of Swaziland increases its expenditure on housing construction and maintenance, with the aid of appropriate diagrams, trace the adjustment process to long run equilibrium in the AD – AS model. [15]

Question 8

- a) Define unemployment and discuss any three types of unemployment. [10]
- b) The youth and rural dwellers are said to be the most seriously affected by unemployment in Swaziland. Discuss the current initiatives undertaken by the government to combat this problem. [15]