

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

SUPPLEMENTARY EXAMINATION PAPER: JULY 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

The following equations describe an economy.

$$C = 0.8(1 - t)Y$$

$$t = 0.25Y$$

$$I = 900 - 50i$$

$$\bar{G} = 800$$

$$L = 0.25Y - 62.5i$$

$$\frac{\bar{M}}{\bar{P}} = 500$$

- a) What is the general definition of the IS curve? (7)
- b) Derive the equation that describes the IS curve (3)
- c) What is the general definition of the LM curve? (3)
- d) Derive the equation that describes the LM curve? (6)
- e) What are the equilibrium levels of income and interest rate? (6)

Question 2

- a) What is meant by monetary accommodation? [5]
- b) Demonstrate graphically the effectiveness of fiscal policy in the liquidity trap and the classical case. [20]

Question 3

- a) Monetary and Fiscal policies are stabilization policies used to achieve certain macroeconomic objectives. Outline these objectives and clearly state how each of them is measured? [25]

Question 4

- a) Derive the equation for equilibrium output in the simple Keynesian model, with the government sector incorporated. [10]

- b) State and explain the expenditure multiplier as derived in part (a) above. [5]
- Graph the functions for aggregate demand in the model stated in (a) above and explain the effect of an income tax rate decrease on the level of equilibrium output. [10]

SECTION B

Question 5

- a) Why is inflation regarded as a “social ill”? [5]
- b) What factors have led to the continuous increase in the rates of inflation and unemployment in Swaziland over the recent past? [10]
- c) Suggest possible policy measures that can be taken to curb the unemployment problem in Swaziland. [10]

Question 6

- a) What is meant by supply shocks? Give examples. [5]
- b) Using the AD – AS framework, illustrate how an adverse supply shock would affect the equilibrium output and the price level. [15]
- c) Explain the statement ‘wages are sticky in the short run’. [5]

Question 7

- a) Using an appropriate diagram illustrate and explain the various stages of the business cycle. [10]
- b) Discuss the different views to the causes of business cycles. [5]
- c) How do policy makers deal with the problem of business cycles? [10]

Question 8

- a) Define a production function. What is the relationship between the labour demand production function according to the frictionless neoclassical analysis? [10]
- b) Explain clearly how the optimal level of employment is achieved in the analysis quoted in (a) above. Using a graph, state all relevant assumptions. [12]
- c) State the law of diminishing returns. [3]