

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

MAIN EXAMINATION PAPER: MAY 2017

TITLE OF PAPER: MACROECONOMICS

COURSE CODE: ECO 202

TIME ALLOWED: TWO (2) HOURS

INSTRUCTIONS:

- 1. THIS PAPER CONSISTS OF TWO SECTIONS.**
- 2. SECTION ONE IS COMPULSORY THEN CHOOSE ANY TWO (2) OTHER QUESTIONS FROM THE THREE PROVIDED IN SECTION TWO.**
- 3. ANSWER THREE (3) QUESTIONS IN TOTAL.**
- 4. SECTION ONE CARRIES 40 MARKS WHILE QUESTIONS IN SECTION TWO CARRY 30 MARKS EACH**

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

SECTION ONE

Question1 (Compulsory and Carries 40 Marks)

A. Write explanatory notes on the following economic terms. Your response should show full understanding of the concept.

- i) Business Cycle
- ii) Supply Shocks
- iii) Sticky Wages
- iv) Unemployment
- v) Inflation

[5 Marks each]

B.

i) Define and graphically derive the aggregate demand curve. [5]

ii) In an attempt to fight unemployment, African countries (with Swaziland inclusive) have come up with a number of strategies or programmes. With reference to Swaziland, discuss any five of these strategies. [10]

SECTION TWO

Question 2

- a) The costs of unemployment are probably more obvious when viewed through the lens of the national checkbook. Discuss [15]
- b) Given that in a particular year the government of Swaziland increases its expenditure on housing construction and maintenance, with the aid of appropriate diagram (s), trace the adjustment process to long run equilibrium in the AD – AS model. [15]

Question 3

- a) With an aid of a diagram define the business cycle. [5]
- b) Discuss the three (3) fundamental views of the nature and causes of economic fluctuations. [15]
- c) Define what stabilization policies are and state why such policies should be used with caution. [10]

Question 4

- a) Discuss the AD-AS theory of demand-pull and cost-push inflation. [10]
- b) Write short notes on the Frictionless Neoclassical Analysis of the short-run AS curve. [5]
- c) Economists generally regard a relatively low, stable level of inflation as desirable. When inflation is stable and expected, the economy is generally able to adjust easily to slowly rising prices. However, inflation does have some

economic costs, especially when it is high or unexpected. What are the costs of inflation, discuss.

[15]