

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

MAIN EXAMINATION PAPER: MAY 2017

**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

1. Consider the following scenario and answer the questions that follow

Government purchases and lump sum taxes are SZL500 and SZL400, respectively.

Investment equals SZL200. The autonomous part of consumption is SZL100. The marginal propensity to consume is 0.9.

- (a) What is the equilibrium level of national income? [5]
- (b) In relation to (a) consider an economy similar, but also with an income tax that is one-third of income. [5]
- (c) The government decides to increase spending in order to increase GDP by SZL750. How much should government spending increase? [2]
- (d) Derive the expression of national income if we consider transfer payments in the model. [5]
- (e). What is the new multiplier? [1]
- (f). Why is the new multiplier less than the standard one? [2]
- (g) If the government seeks to maintain a zero trade balance ($NX = 0$), what proportional income tax rate, t , should be set? [5]

Question 2

- a) What is the IS curve [3]
- b) What is the LM curve [3]
- c) Mathematically derive the IS curve [7]
- d) Mathematically derive the LM curve [7]
- (e) List any 5 Macroeconomic objective [5]

Question 3

(a) If the economy was stuck in a liquidity trap, would you advise the use of monetary or fiscal policy? (Use graphic models in your explanation). [10]

(b) In the face of substantial crowding out, which would be more successful – monetary or fiscal policy? (make use of graphic models in your explanation). [15]

SECTION B

Question 5

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

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

[5 Marks each]

Question 6

- a) Graphically derive the aggregate demand curve and state its underlying properties. [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 diagram (s), trace the adjustment process to long run equilibrium in the AD – AS model. [15]

Question 7

- a) What is a business cycle? [5]
- b) Just like any other country, Swaziland also experiences fluctuations in its economy. Using a diagram, discuss the different stages of the business cycle. [16]
- c) Which stage of the business cycle is Swaziland's economy? Give valid evidence. [4]

Question 8

“Unemployment is like a headache or a high temperature- unpleasant and exhausting but not carrying in itself any explanation of its cause”.

- a) Define unemployment [3]
- b) Discuss any four types of unemployment. [12]

c) Discuss the theory underlying the demand pull and cost push theories of inflation. [10]