

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

MAIN EXAMINATION PAPER: DECEMBER 2017

TITLE OF PAPER: MACROECONOMICS I

COURSE CODE: ECO203

TIME ALLOWED: TWO (2) HOURS

INSTRUCTIONS TO CANDIDATES

- 1. ANSWER FOUR QUESTIONS IN ALL.**
- 2. CHOOSE ANY TWO QUESTIONS IN SECTION A AND TWO FROM SECTION B.**
- 3. ANSWER EACH SECTION ON A SEPARATE ANSWER BOOKLET.**

REQUIREMENTS

- 1. SCIENTIFIC CALCULATORS**

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

Section A - Answer Any Two Questions

Question 1

Suppose that the Republic of Economists produces three goods: books, magazines and papers. The following table provides information about the prices and output for these three goods for the years 2013, 2014 and 2015.

Year	Price per book	Quantity of books	Price per magazines	Quantity of Magazines	Price per paper	Quantity of papers
2013	\$100	10	\$50	100	\$10	200
2014	\$100	12	\$52	108	\$10	205
2015	\$100	12	\$54	115	\$10	212

- a) Calculate nominal GDP in 2013, 2014 and 2015. [3]
- b) Using 2013 as the base year, calculate the real GDP for 2013, 2014 and 2015 [6]
- c) What was the percentage change in real GDP from 2013 to 2014? [2]
- d) Using 2013 as the base year, calculate GDP deflator measured on a 100-point scale for 2014 and 2015 [4]
- e) "Economists and politicians talk as if an increase in real GDP means that people are better off". But GDP data are far from perfect measures of either economic output or welfare. Discuss [10]

Question 2

Swaziland is facing widening deficit figures because of volatile SACU receipts and expansionary fiscal policies adopted in the past.

- a) Outline the benefits to Swaziland of being a member of SACU. [10]
- b) Outline any **five** (5) possible measures that the government could explore to tackle the growing deficit. [15]

Question 3

Economic indicators have become part of our everyday life. The interest in these indicators stems from a variety of reasons.

- a) Discuss any five of these indicators stating how each one of them influences our day-to-day lives. [20]
- b) Based on the 2014/15 sectorial data analysis which three sectors of the economy should the SRA focus on and why. [5]

Section B - Answer Any Two Questions

Question 4

(a) Suppose exports increase, what will be the effect on income and interest rate if income responsiveness of money demand is low compared to when the income responsiveness of money demand is high? [12]

(b) Use chain reactions and the IS-LM model to explain and illustrate the impact of an increase in the repo rate on national income and the interest rate. [13]

Question 5

(a) Use chain reactions and diagrams to explain and illustrate the internal and external impact of an increase in economic growth in European Union and China on the level of national income, the interest rate and the exchange rate of Swaziland. Assume that the degree of international capital mobility is low for Swaziland, that the European and Chinese propensity to import is high and that the exchange rate is floating. Clearly show the balance of payments adjustment process. [15]

(b) Suppose a simple economy with only consumption, investment and government. Further suppose Income $Y = \text{SZL}1000.00$, the marginal propensity to consume $b = 0.8$. Autonomous consumption $a = \text{SZL}1000.00$, Investment $I = \text{SZL} 80.00$, Government consumption $G = \text{SZL}100$ and tax rate $t = 0.1$

(i) Calculate the size of the expenditure multiplier. [1]

(ii) Calculate the size of the tax multiplier. [1]

(iii) Suppose investment I increases by $\text{SZL}100.00$, calculate the new income level following the increase in investment. Also use the appropriate graph to explain the effect of an increase in investment on income. [4]

(iv) Suppose the tax rate on income t increases from 0.1 to 0.15 , what will be the value of equilibrium income following the increase in the tax rate. Also use the appropriate graph to explain the effect of an increase in the tax rate on income. [4]

Question 6

(a) Use chain reactions and IS-LM model to explain and illustrate the impact of a stimulating fiscal policy on national income and the interest rate. [15]

(b) Suppose the cash reserve requirement increases. Use the Keynesian transmission mechanism's chain reactions to show the primary, secondary and net effects on total expenditure, total income and the interest rate. Indicate clearly the balance of payments adjustment process. Assume Swaziland has a floating exchange rate and the capital flows are not interest rate sensitive. [10]