

UNIVERSITY OF SWAZILAND
FACULTY OF SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS
SUPPLEMENTARY EXAMINATION

JULY 2018

TITLE OF PAPER: MACROECONOMICS

COURSE CODE: ECON203 / ECON203 IDE

TIME ALLOWED: 3 HOURS

INSTRUCTIONS: THE EXAM COMPRISES TWO (2) SECTIONS.

ANSWER ANY TWO QUESTIONS FROM EACH
SECTION.

SECTION 1

Question 1

a) The following equation describes an economy

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

$$t = 0.25$$

$$I = 900 - 50i$$

$$\bar{G} = 800$$

$$L = 0.25Y - 62.5i$$

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

$$NX = 0$$

- i) What is the equation that defines the IS curve? [4]
- ii) What is the equation that describes the LM curve? [4]
- iii) What are the equilibrium levels of income and interest rates? [5]
- iv) Describe in words the conditions that are satisfied by the intersection of the IS and LM curves, explain why this is an equilibrium. [2]
- b) Using an appropriate graph or graphs explain the concept of crowding out and comment on crowding out during the liquidity trap and the classical case. [10]

Question 2

- a) Using a graph showing a simultaneous equilibrium in the goods and assets markets clearly show and explain how the market will adjust towards a simultaneous equilibrium in the four disequilibrium positions. [20]
- b) What are the assumptions of the Simple Keynesian Model? [5]

Question 3

- a) When can capital be said to be perfectly mobile? [5]

- b) Assume that capital is perfectly mobile, the price level is fixed and the exchange rate is fixed. What would be the effects of an increase in government purchases? [10]

- c) What is the policy dilemma and propose the appropriate policies for dealing with the policy dilemma. [10]

SECTION 2**Question 4**

- a) Explain why the classical aggregate supply curve is vertical. What are the mechanisms that ensure continued full employment of labour in the classical case? [10]
- b) With the aid of relevant graphs, discuss the theory of cost push and demand pull inflation. [10]
- c) Are there any possible measures of monetary and fiscal policy that could be taken to combat cost push inflation? Briefly explain. [5]

Question 5

- a) Discuss any five measures that the government of Swaziland can adopt in combating unemployment. [15]
- b) Discuss the issue of policy lags and fully discuss why monetary policy has a shorter inside lag and a longer outside lag compared to fiscal policy. [10]

Question 6

- a) What is hyperinflation? Discuss any four causes of hyperinflation. What potential measures can be put in place to combat hyperinflation? [25]