

**UNIVERSITY OF ESWATINI
FACULTY OF SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS
MAIN EXAMINATION 2018/2019**

**TITLE OF PAPER : PRINCIPLES OF MACROECONOMICS
COURSE CODE : ECO102 / IDE-ECO102 / IDE-ECON104
TIME ALLOWED : TWO (2) HOURS**

INSTRUCTIONS :

- 1. THIS PAPER CONTAINS THREE (3) SECTIONS**
- 2. QUESTION ONE (1) IS A COMPULSORY MULTIPLE CHOICE QUESTION THAT SHOULD BE ANSWERED IN THE SHEET PROVIDED**
- 3. CHOOSE ONE QUESTION IN SECTION B AND ONE QUESTION I SECTION C.**
- 4. ONLY SCIENTIFIC NON-PROGRAMMABLE CALCULATORS ARE ALLOWED.**

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR

SECTION A

QUESTION 1 (Compulsory)

[2 marks each = 40 Marks Total]

1. The inflation rate is measured by:
 - A. the ratio of current year CPI to base year CPI.
 - B. the percentage change in the CPI from one year to the next.
 - C. the percentage change in GDP from one year to the next.
 - D. the ratio of current year CPI to the next year's CPI.
 - E. the ratio of current year PPI to the next year's PPI.

2. Which one of the following does NOT represent a key macroeconomic variable?
 - A. The unemployment rate.
 - B. The inflation rate.
 - C. Gross Domestic Product (GDP).
 - D. Income distribution.
 - E. The population growth rate.

3. Which one of the following is **not** an element of the business cycle?
 - A. Peak
 - B. Trough
 - C. Upswing
 - D. Downswing
 - E. Long-term trend

4. Which one of the following is **not** an element of the business cycle?
 - A. Expansion
 - B. Boom
 - C. Real welfare
 - D. Contraction
 - E. Recession

5. If aggregate expenditure is greater than total income:
- A. investment will decrease because such a high level cannot be sustained.
 - B. planned saving will decrease in line with investment.
 - C. output will increase to replenish depleted inventories.
 - D. investment will decrease to run down excessive inventories.
 - E. there is an error, since the two are the same by definition.
6. The multiplier in the Keynesian model equals:
- A. the equilibrium level of income for a given level of aggregate expenditure.
 - B. the increase in autonomous expenditure brought about by a change in income.
 - C. the equilibrium level of income divided by autonomous expenditure.
 - D. the increase in equilibrium income when autonomous expenditure increases.
 - E. the level of equilibrium output corresponding to a given level of aggregate spending.
7. Consider the following information:
- Marginal propensity to consume = 0,9
 - Investment = E200 million
 - Autonomous consumption = E70 million

The equilibrium level of income is

- A. E300 million
 - B. E700 million
 - C. E2 000 million
 - D. E2 700 million
 - E. impossible to determine from the information provided
8. Given a particular aggregate expenditure function, which of the following must be true if the prevailing level of income is greater than planned aggregate expenditure?
- A. Firms' inventories are falling unintentionally.

- B. Firms' inventories are increasing unintentionally.
 - C. The aggregate expenditure function will shift downward.
 - D. Businesses will increase production.
 - E. Real GDP will rise from the prevailing level to the equilibrium level.
9. Which one of the following statements is **incorrect**? The introduction of government spending into the simple Keynesian model:
- A. increases the level of aggregate spending.
 - B. increases the multiplier.
 - C. increases the equilibrium level of income.
 - D. leaves the slope of the aggregate spending function unchanged.
 - E. creates scope for fiscal policy.
10. If the tax rate is increased:
- A. autonomous spending increases.
 - B. disposable income increases
 - C. the multiplier decreases.
 - D. the equilibrium level of income increases.
 - E. government spending increases.
11. Which of the following is true of the money market?
- A. The speculative demand for money is a function of the interest rate.
 - B. The liquidity preference curve slopes upward.
 - C. The transactions demand for money is a function of the interest rate.
 - D. The precautionary demand for money is a function of the interest rate.
 - E. Higher rates of interest lead to a higher demand for liquidity.
12. Which of the following will cause the demand curve for money to shift to the right?
- A. An increase in real GDP.
 - B. A decrease in the repo rate.

- C. An increase in the quantity of money available.
- D. A decrease in the quantity of money available.
- E. An increase in the price level.

13. Which one of the following statements is **incorrect**?

- A. The opportunity cost of holding money balances is the interest that could have been earned if the money had been used to purchase interest-bearing assets instead.
- B. Anyone who wishes to enter into transactions in a monetary economy has to hold money as a medium of exchange.
- C. The quantity of money demanded for transaction purposes depends on the level of income.
- D. The demand for money as an asset is also called the speculative demand for money.
- E. The quantity of money demanded for speculative purposes is positively related to the interest rate.

14. Which one of the following statements is **incorrect**?

- A. As interest rates increase, bond prices decrease.
- B. As interest rates decrease, bond prices increase.
- C. There is a positive relationship between interest rates and bond prices.
- D. If interest rates are high, the quantity of money demanded will tend to be low.
- E. If interest rates are low, the quantity of money demanded will tend to be high.

15. Which one of the following will give rise to a rightward shift of the *AD* curve?

- A. Households decide to increase their saving rate.
- B. There is a sharp and sustained increase in share prices on the JSE.
- C. Personal tax rates are increased.
- D. The central bank increases the repo rate.
- E. Real government spending is lowered.

16. Which one of the following statements about the *AS* curve is **incorrect**?

- A. In the short run the *AS* curve tends to have a positive slope.

- B. In the long run the *AS* curve tends to be vertical.
- C. The *AS* curve is primarily governed by the costs of production.
- D. The *AS* curve is influenced by the prices and productivity of the various factors of production.
- E. Because imports do not form part of GDP, import prices have no effect on the *AS* curve.

17. Which one of the following is an example of an expansionary fiscal policy?

- A. A decrease in interest rates.
- B. An increase in interest rates.
- C. An increase in government spending.
- D. A decrease in government spending.
- E. An increase in taxes.

18. Which one of the following statements is **incorrect**? An expansionary fiscal policy:

- A. may involve increased government spending.
- B. may involve a decrease in taxes.
- C. tends to be more successful in stimulating the economy than an expansionary monetary policy.
- D. may be illustrated by a rightward shift of the *AD* curve.
- E. is not subject to any policy lags.

19. A monetary system where exchange rates are freely determined in response to the demand and supply for foreign currencies may best be described as a:

- A. fixed exchange rate system.
- B. managed float.
- C. floating exchange rate system.
- D. pegged exchange rate.
- E. purchasing power parity system.

20. Suppose that the euro/US dollar exchange rate changes from 1,3 dollar per euro to 1,1 dollar per euro. Then:

- A. the euro has depreciated against the dollar.
- B. this will decrease the demand for Eurozone goods by the United States.
- C. this will lead to a rise in exports by the United States to the Eurozone.
- D. the euro has appreciated against the dollar.
- E. the dollar has depreciated against the euro.

SECTION B (CHOOSE ONE QUESTION IN THIS SECTION)

QUESTION 2

[30 MARKS]

- a) Differentiate between the $M1$ and $M2$ types of money. [4 Marks]
- b) What are the main determinants of the demand for money? Explain the link between each determinant and the quantity of money demanded. [10 Marks]
- c) Describe four (4) functions of money and explain the role of each function in your personal life. [10 Marks]
- d) Outline how the central bank uses Open Market Operations (OMO) as an instrument of monetary policy in an economy. [6 Marks]

QUESTION 3

[30 MARKS]

- a) Compare and contrast the marginal propensity to consume (MPC) and marginal propensity to save (MPS) [5 Marks]
- b) Illustrate and explain the effect of the introduction of government and the foreign sector affects the multiplier. [10 Marks]

Push to
RHS
for
consistency

- c) In a private closed economy, the savings function is $S = -80 + 0.4Y$ and investment spending is $I = 80$.
- i) Determine the consumption function. [4 Marks]
 - ii) What is the equilibrium income level? [6 Marks]
 - iii) If Investment increases by 10, by how much will output increase? [5 Marks]

SECTION C (CHOOSE ONE QUESTION IN THIS SECTION)

QUESTION 4

- a) Mention and discuss the nature of the four types of unemployment [12 marks]
- b) Unemployment can impose costs to the individual who is unemployed, to the society in which that person lives and to other foreign countries. Explain how unemployment can impose costs to these parties. [13 marks]
- c) Briefly discuss the two measures used to measure inequality. [5 marks]

QUESTION 5

- a) What is meant by a business cycle? [5 marks]
- b) Draw a diagram showing the different phases of a business cycle and explain the characteristics of each phase. [20 marks]
- c) How can fiscal policy be used to pull an economy out of a recession? [5 marks]