

UNIVERSITY OF ESWATINI
FACULTY OF SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS
RESIT 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. GDP at _____ prices will usually be greater than GDP at _____ prices because of _____.
 - A. constant; current; inflation
 - B. current; constant; inflation
 - C. constant; current; depreciation
 - D. current; constant; depreciation
 - E. current; constant; deflation

2. A consumer's real purchasing power refers to:
 - A. the nominal income level of the consumer.
 - B. wage income earned through employment.
 - C. the maximum volume of goods and services that the consumer can buy.
 - D. nominal GDP per capita.
 - E. real GDP deflated by the price level.

3. The phase of the business cycle at which almost all available resources in the economy are in use is referred to as:
 - A. the recovery phase.
 - B. the expansion phase.
 - C. the peak or boom phase.
 - D. the trough phase.

4. During a recession, cyclical unemployment will _____ and cyclical inflation will _____.
 - A. decrease; decrease

- B. decrease; increase
- C. increase; increase
- D. increase; decrease
- E. None of the above

5. Which of the following statements is/are true? If aggregate expenditure is equal to total income, this means:

- A. nothing, because they are always equal by definition.
- B. the economy is in equilibrium.
- C. inventories will remain at their planned levels.
- D. investment will decrease to run down inventories.
- E. investment will increase to build up inventories.

6. Which of the following statements is/are true?

- i. The level of autonomous consumption is determined in part by the level of wealth.
- ii. The level of induced consumption is determined by the level of wealth.
- iii. The level of induced consumption is determined by the level of income.
- iv. The level of consumption is determined only by the level of induced consumption.

- A. i
- B. ii
- C. i and ii
- D. i and iii
- E. i, iii and iv

7. The MPC measures the relationship between:

- A. a change in consumption and a change in income.
- B. change in consumption and savings.
- C. changes in consumption and changes in savings.

- D. the proportion of income to consumption at any given level of income.
 - E. the total level of consumption and the total level of saving.
8. If a household's income falls from R20 000 to R17 000 and its consumption falls from R18 000 to R15 000, then its:
- A. marginal propensity to consume is $-0,67$.
 - B. marginal propensity to consume is $0,88$.
 - C. marginal propensity to consume is $0,20$.
 - D. marginal propensity to save is zero.
 - E. marginal propensity to save is $0,12$.
9. Which one of the following will **not** be affected by a change in the tax rate?
- A. The level of autonomous spending.
 - B. The equilibrium level of income.
 - C. Disposable income.
 - D. The multiplier.
 - E. Consumption spending by households.
10. Which one of the following will increase the size of the multiplier?
- A. An increase in government spending.
 - B. A decrease in government spending.
 - C. An increase in the tax rate.
 - D. A decrease in the tax rate.
 - E. None of the above.
11. Assume that the full-employment income level is higher than the equilibrium income level. According to the Keynesian model, income can be increased if:
- A. the level of spending on imports is increased.
 - B. the level of government spending is increased.

- C. the tax rate is increased in an effort to achieve a balanced budget.
- D. exports decrease.
- E. autonomous consumption decreases.

12. The _____ demand for money arises out of the need to hold money as a medium of exchange. This demand for money is a function of _____.

- A. precautionary; interest rates
- B. transactions; national income
- C. speculative; interest rates
- D. precautionary; national income
- E. transactions; interest rates

13. A decrease in the rate of interest:

- A. lowers the opportunity cost of money and leads to an increase in the quantity of money demanded.
- B. raises the opportunity cost of money and leads to an increase in the quantity of money demanded.
- C. lowers the opportunity cost of money and leads to a decrease in the quantity of money demanded.
- D. raises the opportunity cost of money and leads to a decrease in the quantity of money demanded.
- E. does not affect the quantity of money demanded.

14. Which one of the following statements is NOT true?

- A. Money is a unit of account.
- B. Money is a store of value.
- C. Money is a medium of exchange.
- D. Money is another term for income.
- E. Money is the most liquid asset.

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

- A. The aggregate AD-AS model seeks to explain the general price level and the aggregate production of goods and services.
- B. The aggregate demand curve shows the aggregate quantities that are demanded at different price levels.
- C. If aggregate supply falls, there will be an upward pressure on prices, *ceteris paribus*.
- D. In terms of the AD-AS model, if aggregate demand falls, with no change in aggregate supply, unemployment will tend to decrease.
- E. An increase in investment spending will result in a rightward shift of the AD curve.

16. The policy recommendations of supply-side economists include that:

- A. government needs to increase the quantity of money to bring about full employment.
- B. the supply of goods and services produced by the government needs to be increased.
- C. the government should introduce specific regulations to see that the correct type of investment is undertaken.
- D. government should reduce its spending and general involvement in the economy.
- E. taxes should be increased to provide for a greater supply of government services to the poor.

17. Which one of the following is **not** assumed in the AD-AS model?

- A. Prices are variable.
- B. Wages are variable.
- C. Aggregate supply can change independently of aggregate demand.
- D. The quantity of money is fixed.
- E. Interest rates are variable.

18. Which one of the following is **not** a component of aggregate demand in the economy?

- A. Consumption spending by households.

- B. Investment spending by firms.
- C. Spending on our exports by foreigners.
- D. The productivity of the factors of production.
- E. Government spending.

19. The foreign exchange rate is the rate at which:

- A. one country's goods trade for those of another country.
- B. the currency of one country trades for the goods of another country.
- C. currencies of different countries are exchanged.
- D. one country's currency trades for silver provided by another country.
- E. the services of one country trade for the currency of another country.

20. As a result of more Americans visiting Eswatini, we can expect, *ceteris paribus*:

- A. an appreciation of the Lilangeni relative to the dollar.
- B. a depreciation of the Lilangeni relative to the dollar.
- C. an appreciation of the dollar relative to the Lilangeni.
- D. that it will cost Emaswati more to visit the United States.
- E. an appreciation of the dollar relative to all major currencies.

SECTION B

(CHOOSE ONE QUESTION IN THIS SECTION)

QUESTION 2

[30 MARKS]

- a) Differentiate between absolute advantage and comparative advantage. [4 Marks]
- b) Differentiate between a depreciation and an appreciation of a currency. [4 Marks]
- c) Briefly discuss three (3) trade policy instruments. [6 Marks]
- d) List four (4) factors that can lead to an increase in the demand for the British Pound. [4 Marks]
- e) Graphically illustrate and explain the effect of a **decrease** in demand for the British Pounds. (On the vertical axis, plot Rands per Pound) [12 Marks]

QUESTION 3

[30 MARKS]

- a) Discuss three (3) functions of money. [9 Marks]
- b) Graphically illustrate and explain the factors that determine the shape and position of the demand for money curve. [12 Marks]
- c) Discuss three (3) functions of the central bank. [9 Marks]

SECTION C

(CHOOSE ONE QUESTION IN THIS SECTION)

QUESTION 4

- a) Define fiscal policy and explain how the equilibrium level of income can be raised through fiscal policy in a Keynesian model. [8 marks]
- b) Suppose that the marginal propensity to consume = $\frac{5}{6}$ and the tax rate = $\frac{1}{9}$. The government wants to increase the equilibrium level of income by E40 billion. Calculate by how much government spending needs to be increased to raise the equilibrium level of income by this amount. [5 marks]
- c) Given the following information:

Autonomous consumption = E100m

Investment spending = 200m

Government spending = 150m

Proportional tax rate = $\frac{1}{4}$

Autonomous net exports = E50m

Marginal propensity to consume = $\frac{8}{9}$

Full-employment level of income = E2100m

Calculate:

- i. Autonomous spending [4 marks]
- ii. The multiplier [4 marks]
- iii. The equilibrium level of income [3 marks]
- iv. The change in government spending required to attain full employment. [6 marks]

Note: Please show all your workings

QUESTION 5

- a) Mention and discuss the three key macroeconomic objectives and explain how each of them is measured. [15 marks]
- b) What are the problems involved in using National Income statistics as a measure of economic welfare? How serious are these problems and how can they be addressed? [10 marks]
- c) Briefly explain two methods which are used to measure GDP. [5 marks]