

UNIVERSITY OF ESWATINI
FACULTY OF SOCIAL SCIENCE
DEPARTMENT OF ECONOMICS
MAIN EXAMINATION
MAY 2019

TITLE OF PAPER: MACROECONOMICS II

COURSE CODE: ECO 202/IDE-ECO 202

TIME ALLOWED: TWO (2) HOURS

INSTRUCTIONS:

- 1) ANSWER ANY TWO QUESTIONS
- 2) ALL QUESTIONS CARRY A TOTAL OF 40 MARKS.

DO NOT OPEN THIS PAPER UNTIL PERMISSION HAS BEEN GRANTED
BY THE CHIEF INVIGILATOR.

Question 1

- a) Using the IS/LM diagram, derive the Aggregate demand curve. Describe the relationship depicted by this curve. (10 marks)
- b) Outline the reasons why aggregate demand and the average price level are negatively related. (8 marks)
- c) Define structural unemployment. Outline **any five** policies that can be used to tackle this type of unemployment. (12 marks)
- d) Outline **any five** causes of low economic growth in both developed and developing countries. (10 marks)

Question 2

- a) Define the aggregate supply curve. List **any five** factors that determine aggregate supply. (12 marks)
- b) Set out the equation for the price-setting relationship. Define all variables. What does this relationship show? (8 marks)
- c) Outline the Monetarist/ New Classical explanation of inflation. Do not use a graph. (10 marks)
- d) Differentiate between leading and coincident business cycle indicators. (5 marks)
- e) State the equation for the standard Phillips curve. Draw this curve. Be sure to define all variables. (5 marks)

Question 3

- a) Using the aggregate demand-aggregate supply model, analyse the short run, medium term and long run effects of an increase in government spending on output and the price level. (20 marks)
- b) Summarize the economic costs of inflation. (10 marks)
- c) Outline the economic, social and political costs of unemployment. (10 marks)