

UNIVERSITY OF ESWATINI
FACULTY OF SOCIAL SCIENCE
DEPARTMENT OF ECONOMICS
RESIT EXAMINATION
JULY 2019

TITLE OF PAPER: MACROECONOMICS II

COURSE CODE: ECO 202/IDE-ECO 202

TIME ALLOWED: TWO (2) HOURS

INSTRUCTIONS:

- 3) ANSWER **ANY TWO** QUESTIONS
- 4) 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 aggregate demand/aggregate supply model, show that money is neutral in the long run. Be sure to explain the short run, medium term and long run equilibrium adjustments. (20 marks)
- b) Derive the aggregate demand curve using the 45 degree diagram. (5 marks)
- c) Outline the Keynesian approach to inflation. Use graphs. (15 marks)

Question 2

- a) Outline the factors that will determine the efficiency of fiscal and monetary policy in any economy. (10 marks)
- b) Defining all variables, set out the equation for the wage-setting relationship. (10 marks)
- c) State the equations for the indirect wage-setting and indirect price-setting relationships. Explain these equations in detail. (10 marks)
- d) Use the equations in part (c) above to derive the formula for the price-setting and wage-setting equilibrium. (4 marks)
- e) Based on your solutions for parts (c) and (d) above, derive the long run equilibrium. What is the significant relationship deduced from this equation. (6 marks)

Question 3

- a) Define core and headline inflation. Why is this distinction important? (6 marks)
- b) Discuss **any four** types of unemployment. (12 marks)
- c) Outline the economic costs of inflation. (10 marks)
- d) Discuss **any four** policies that have been used by the government to combat unemployment in Eswatini. (12 marks)