

**UNIVERSITY OF ESWATINI
FACULTY OF SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS
FINAL EXAMINATION MAY 2019**

**TITLE OF PAPER : MACROECONOMICS
COURSE CODE : IDE-ECON203
TIME ALLOWED : THREE (3) HOURS**

INSTRUCTIONS:

- 1. ANSWER QUESTION ONE AND ANY OTHER THREE QUESTIONS**
- 2. ONLY SCIENTIFIC NON-PROGRAMMABLE CALCULATORS ARE ALLOWED.**

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

Question 1**COMPULSORY QUESTION: [40 MARKS]**

a. Write short explanatory notes on the following concepts.

- a. Monetary accommodation
- b. Expenditure multiplier
- c. Business cycle
- d. Sticky wages

[5 marks each]

b. The following table contains prices and quantities of two goods produced in an economy in two different years.

	Food	Petrol
Price in base year (E)	6	5
Price in current year (E)	9	7
Quality in weight year (Units)	3	4

Compute a price index from the above table.

[10 marks]

c. Derive algebraically the equation that describes the IS curve.

[10 marks]

ANSWER ANY THREE QUESTIONS FROM THE FOLLOWING: [20 MARKS EACH]

Question 2

a. What is meant by Supply shocks?

[5 marks]

b. Using a suitable graph, demonstrate the effectiveness of monetary policy in the liquidity trap and the classical case.

[15 marks]

Question 3

Monetary and Fiscal policies are stabilization policies used to achieve certain macroeconomic objectives. Outline these objectives and clearly state how each of them is measured?

[20 marks]

Question 4

a. Derive the equation for equilibrium output in the simple Keynesian model, with the government sector incorporated.

[10 marks]

b. Graph the functions for aggregate demand in the model stated in (a) above and explain the effect of an income tax rate decrease on the level of equilibrium output.

[10 marks]

Question 5

a. Explain and illustrate graphically how crowding out influences the impact of expansionary fiscal policy.

[10 marks]

b. What factors have led to the continuous increase in the rates of unemployment in Eswatini over the recent years?

[10 marks]