

**UNIVERSITY OF ESWATINI
FACULTY OF SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS
SUPPLEMENTARY EXAMINATION JULY 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. Define and graphically derive the AD curve stating all relevant assumptions. [10 marks]
- b. Stating all relevant assumptions, derive the equilibrium income and interest rate algebraically, that is, the intersection of the IS and LM curves. [15 marks]
- c. While value added tax has been adopted in Swaziland, it frequently suffers from being incomplete in one aspect or another. Explain fully. [15 marks]

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

Question 2

- a. Explain how importers could actually take advantage of the foreign exchange market in their conduct of business. [5 marks]
- b. Derive the goods market equilibrium both algebraically and graphically, making sure to state all assumptions made. [15 marks]

Question 3

- a. Using the AD/AS model show the effects of an adverse supply shock on interest rates, prices and output. [13 marks]
- b. What would be the overall effects of using fiscal and monetary policy to accommodate the shock? [7 marks]

Question 4

- a) Discuss the AD-AS theory of demand –pull and cost-push inflation. [10 marks]
- b) Distinguish between expenditure switching and expenditure reducing policies. [10 marks]

Question 5

- a. Derive algebraically the equation that describes the LM curve. [10 marks]
- b. Explain briefly the importance of pegging the Swazi currency with South Africa rand. [10 marks]