UNIVERSITY OF ESWATINI

FACULTY OF SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

RE - SIT EXAMINATION PAPER – JANUARY 2018

MACROECONOMICS I – ECO203 / ECO203 IDE

TIME ALLOWED - TWO (2) HOURS

INSTRUCTIONS

1. THE QUESTION PAPER HAS TWO (2) SECTIONS, EACH WITH THREE (3) QUESTION ANSWER ANY TWO (2) QUESTIONS PER SECTION.

DO NOT OPEN THE PAPER UNLESS YOU HAVE BEEN INSTRUCTED TO DO SO.

## Section A

### Question 1

a) Gross domestic product (GDP)is increasingly a poor measure of prosperity. It is not even a reliable gauge of production. Discuss five (5) problems associated with GDP measurement. [15]

b) Stating all relevant assumptions, graphically derive the IS curve [5]

c) Stating all relevant assumptions, graphically derive the LM curve [5]

### Question 2

a) It is often said that "for every news paper headline, there are economics involved".

   i. Test the veracity of this headline taken from Times of Swaziland dated 22 June 2018 - "MPs could be paid for no wok until October". [10]

b) What is the wealth budget constraint? [3]

c) Using the wealth budget constraint prove that the decision to purchase assets (bonds, also implies that the decision maker has also made a decision on the amount of money stock to be held in hand. [10]

d) What are assets markets? [2]

### Question 3

a) Using a chain reactions and the IS/LM framework, explain the impact of an increase in the reserve requirements on income and interest rates. [10]

b) Using a graph showing the disequilibrium positions (the four quadrant model) in the goods and assets market clearly show and explain how the market will adjust towards a simultaneous equilibrium in each quadrant. [15]

## Section B

### Question 4

a) Using an appropriate graph explain why it is not possible for a country to practice independent monetary policy under the Mundel – Fleming framework. [10]

b) Suppose exports increase, what will be the effect on income and interest rate if income responsiveness of money demand is low compared to when the income responsiveness of money demand is high? [15]

### Question 5

a) If Eswatini increases her imports, will it lead to higher or lower income? [10]

b) In the case of the open economy, algebraically derive the IS curve and the LM curve

[10]

c) Define an exchange rate and differentiate between the fixed exchange rate and the floating exchange rate. [5]

### Question6

Write short explanatory notes on the following;

a) Perfect capital mobility. [5]

b) Policy dilemma [5]

c) Current account [5]

d) Capital account [5]

e) Repercussion effects [5]

## Section B

### Question 4 (Compulsory) [20]

i. Stating all relevant assumptions, graphically derive the IS curve [5]

ii. Stating all relevant assumptions, graphically derive the LM curve [5]

iii. Stating all relevant assumptions mathematically derive the IS curve and the LM curve. [10]

### Question 5

i. Using a graphic model, show the impact of an open market purchase on interest and output. Be concise in your analysis and clearly show the transmission mechanism and the equilibration process. [10]

ii. If the economy was stuck in a liquidity trap, would you advise the use of monetary or fiscal policy? (Use graphic models in your explanation) [10]

iii. Using the wealth budget constraint prove that the decision to purchase assets (bonds) also implies that the decision maker has also made a decision on the amount of money stock to be held in hand. [5]

iv. What is crowding out? [5]

### Question 6

i. Assume that capital is perfectly mobile, the price level is fixed and the exchange rate is fixed. What would be the effects of an increase in government purchases? [10]

ii. Suppose exports increase, what will be the effect on income and interest rate if income responsiveness of money demand is low compared to when the income responsiveness of money demand is high? [15]

iii. What is a bond? [2]

iv. What is the assets market? [3]