# UNIVERSITY OF ESWATINI

## FACULTY OF SOCIAL SCIENCE

## DEPARTMENT OF ECONOMICS

## MAIN EXAMINATION MAY 2019

TITLE OF PAPER:    INTERMEDIATE MACROECONOMIC THEORY

COURSE CODE:    ECON304/ECO302

TIME ALLOWED:    TWO (2) HOURS

INSTRUCTIONS:

1. THIS PAPER CONSISTS OF THREE QUESTIONS.
2. QUESTION ONE IS COMPULSORY THEN CHOOSE ANY TWO (2) OTHER QUESTIONS.

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

## QUESTION1 (COMPULSORY AND CARRIES 40 MARKS)

a) Write brief notes on the components of GDP? [4]

b) Discuss the concept of intertemporal choice and state the three elements of the Fisher's model of intertemporal choice. [10]

c) Assume the economy is described by the equations.

$$Y = \bar{Y} = F(\bar{K}, \bar{L}) = 1,200$$

$$Y = C + I + G$$

$$C = 120 + 0.75(Y - T)$$

$$I = I(r) = 200 - 10r$$

$$G = \bar{G} = 150$$

$$T = \bar{T} = 100$$

Given the above equations, solve for the value of savings (S). [6]

d) Prove that the per worker production function is given by y= f (k) [5]

e) Fully discuss the Golden Rule level of capital and its associated assumptions. [15]

## QUESTION 2

a) Explain how financial markets may affect economic performance. [10]

b) With an aid of a graph, show the consumer's lifetime wealth, Interpret the budget constraint and the options available to him. [10]

c) Discretionary fiscal policy and automatic stabilizers are frequently confused with each other. With the help of relevant examples, discuss the validity of this statement. [10]

QUESTION 3

Governments are not known to be particularly strict in managing their budgets. In fact they have turned out to be big borrowers.

a) Differentiate between consumption smoothing and tax smoothing [10]

b) Define what absorption is and discuss the absorption approach to the balance of payments. [15]

c) Why is the International Standard Industrial Classification (ISIC) a good industry classification system? [5]

QUESTION 4

Stabilization of the economy is a prerequisite for economic growth. Achieving macroeconomic stabilization requires that eight (8) conditions be met. What are these conditions? Discuss [16]

a) Using suitable graphs, discuss how savings and population growth influences growth in the Solow Growth Model. [14]