



UNIVERSITY OF ESWATINI

FIRST SEMESTER SUPPLEMENTARY/ RE-SIT EXAMINATION PAPER,
JANUARY 2020

FACULTY OF SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

COURSE CODE: ECO203

MACROECONOMICS

TIME ALLOWED: 2 HOURS

Instructions

1. This paper consists of Section (A) and (B);
2. Section A is compulsory;
3. Answer any two (2) questions from Section B.
4. All questions in Section B carry equal marks of 30 each

Special Requirements

1. Scientific calculator

Additional Material (s)

None

*Candidates may complete the front cover of their answer book when instructed by the Chief Invigilator and sign their examination attendance cards but must **NOT** write anything else until the start of the examination period is announced.*

No electronic devices capable of storing and retrieving text, including electronic dictionaries and any form of foreign material may be used while in the examination room.

DO NOT turn examination paper over until instructed to do so

SECTION A

Question 1 (Compulsory)

- a) Why is Gross Domestic Product (GDP) important to economists and investors? [15]
- b) List five (5) drawbacks of Gross Domestic Product (GDP). [5]
- c) The following equations describe an economy.

$$C = 0.8(1 - t)Y$$

$$t = 0.25Y$$

$$I = 900 - 50i$$

$$\bar{G} = 800$$

$$L = 0.25Y - 62.5i$$

$$\frac{\bar{M}}{\bar{P}} = 500$$

- i. Using an appropriate graph, define the IS curve? [6]
- ii. Derive the equation that describes the IS curve [4]
- iii. Derive the equation that describes the LM curve [4]
- iv. What are the equilibrium levels of income and interest rate? [6]

SECTION B

Question 2

The government of Eswatini has embarked on a massive infrastructure development programme which seeks to improve the economy. Explain fully how such a move could influence indicators such as employment, output, and wages. Cite examples of any infrastructural projects that are currently pursued by the government in an effort to fulfil this objective. [30]

Question 3

- a) Explain three (3) key differences between Consumer Price Index (CPI) and Gross Domestic Product (GDP) Deflator. [15]
- b) Using an appropriate graph (s), show how the goods and asset (money) markets will adjust to a simultaneous equilibrium, clearly show how the adjustment process will take place. [15]

Question 4

- a) Stating all relevant assumptions, derive the equilibrium income and interest rate algebraically, that is, the intersection of the IS and LM curves. [25]
- b) Define crowding out. [5]