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

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]