



2nd SEM. 2018/2019

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UNIVERSITY OF ESWATINI

FINAL EXAMINATION PAPER

PROGRAMME: B.Sc. in Agricultural Economics and Agribusiness Management

COURSE CODE: AEM204 / AEM 307

TITLE OF PAPER: INTERMEDIATE MACROECONOMICS

TIME ALLOWED: TWO (2) HOURS

INSTRUCTION: 1. ANSWER ALL QUESTIONS
2. EACH QUESTION CARRIES TWENTY-FIVE (25) MARKS

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QUESTION ONE

Suppose that an economy consists of only 2 types of products: computers and automobiles. Sales and price data for these two products for two different years are as follows:

Year	Quantity of computers sold	Price per computer in dollars (\$)	Quantity of Automobiles sold	Price per Automobile in dollars (\$)
1975	200,000	\$10,000	1,000,000	\$6,000
1995	1,500,000	\$2,000	1,500,000	\$10,000

- a) Assuming that all computers and automobiles are final goods, calculate nominal GDP in 1975 and in 1995. [5 MARKS]
- b) Using 1975 as the base year, real GDP in 1975 is equal to nominal GDP in 1975. Calculate real GDP in 1995 using 1975 as the base year. [5 MARKS]
- c) Calculate real GDP in 1975 using 1995 as the base year. [5 MARKS]
- d) Let 1975 be the base year for the CPI (i.e. $CPI_{1975} = 100$). If the fixed market basket is the total amounts of computers and automobiles purchased in 1975, use the data on the table above to calculate the CPI in 1995, using 1975 as the base year. [5 MARKS]
- e) Calculate the percentage changes in CPI and the GDP deflator between 1975 and 1995. [5 MARKS]

QUESTION TWO

- (a) Briefly discuss the government expenditure multiplier. [7 MARKS]
- (b) Discuss the sources that can start demand pull inflation and cost push inflation. [18 MARKS]

QUESTION THREE

Consider the following Neoclassical model of the economy, where the domestic interest rate r and the world interest rate r^* .

Supply	Demand
$Y = 2100$	$C = 100 + 0.9(Y-T)$
$NX = -100$	$I = 280 - 10r$
$r^* = -1$	$G = 100 \quad T = 200$

Calculate the value of the national saving? Investment? Net capital outflows? Is the foreign exchange in equilibrium? Show the results in a diagram. [25 MARKS]

QUESTION FOUR

- a. Hillary Clinton when she was campaigning to be the President of the USA has called for the national infrastructure bank that would leverage the public and private funds to invest in projects across the US economy. Assume that she was elected as president and follows through on the proposal to boost public infrastructure spending. Discuss the macro impacts on the price level, real GDP and unemployment in the US economy after implementing the above proposal. [10 MARKS]
- b. The Federal Reserve Bank (or Central Bank in the US) will be very concerned about rising in prices when the policy mentioned in (a) is being implemented. What is the best policy option that can be used to fight inflation by the Federal Reserve Bank? Also discuss how they can implement the policy in practice [15 MARKS]