

UNIVERSITY OF SWAZILAND
FACULTY OF SOCIAL SCIENCE
DEPARTMENT OF ECONOMICS

SUPPLEMENTARY EXAMINATION

Title of Paper: MACRO ECONOMICS

Course Code: ECON 203-1&2

Time Allowed: 3 hrs

Instructions:

1. Answer **Four** Questions, Two from SECTION A and Two from SECTION B.
2. All Questions Carry a Total of 25 marks each

**DO NOT OPEN THIS QUESTION PAPER UNTIL THE
INVIGILATOR GRANTS PERMISSION**

Question 1

- a) Discuss in detail any of the main schools of thought in macroeconomics.
[10marks]
- b) In an economy that is less fully employed, crowding out need not occur. Do you agree? Support your answer.
[5marks]
- c) Problems arise when real GDP per capita is used as a measure of economic well being in a country. Explain.
[10marks]

Question 2

- a) Discuss the various macroeconomic objectives that are the goal of macroeconomics. Also indicate how each of the stated goals is measured.
[15marks]
- b) Using current statistics (data) discuss the extent to which these macroeconomic objectives are either fulfilled or unfulfilled in Swaziland.
[10marks]

Question 3

- a) What is the key difference(s) between the simple Keynesian model and the IS-LM analysis?
[5marks]
- b) Policy makers have at their command two broad classes of policies with which to affect the economy.
[6marks]
- c) Total demand for domestic output is made up of four components. Outline these components. Which of these four constitute gross domestic expenditure?
[14marks]

Question 4

Consider the simple macroeconomic model

$$A = C + I + G$$

$$C = C_0 + cY^d$$

$$Y^d = Y - T$$

$$Y = A$$

Where all symbols are defined conventionally:

a) find the equilibrium income Y_e if; $T = 160$, $G = 100$, $I = 100$ and $C = 100 + 0.75Y^d$

[10 marks]

b) calculate the consumption and disposable income.

[10 marks]

c) what would be the equilibrium income if investment were to increase by 50 (with all other variables remaining constant)?

SECTION B

Question 5

a) Discuss the theory underlying the demand pull and cost push theories of inflation.

[10 marks]

b) Discuss clearly, with illustration, the relationship portrayed by the 'Standard Phillips curve'. Also explain the criticisms levelled by Friedmand and Phelps against Standard Phillips curve.

[15 marks]

Question 6

a) Policy makers can also cause a disturbance in an economy. Explain how this is possible?

[7 marks]

b) "Too little too late" is a favourable lament of those who criticize stabilization policy. Explain what makes government stabilisation policy to be criticized so much?

[15 marks]

c) Explain why fiscal policy is said to have a longer inside lag compared to monetary policy.

[5 marks]

Question 7

- a) Define a production function. What is the relationship between the labour demand and production functions according to the frictionless neoclassical analysis?
[7marks]
- b) Explain clearly how the optimal level of employment is achieved in the analysis quoted in (a) above. Use a graph and state all the relevant assumptions.
[15 marks]
- c) State the law of diminishing returns.
[3marks]

Question 8

- a) Using the aggregate demand and supply model, analyse the effect of an increase in government spending on equilibrium income.
15 marks]
- b) One way in which the government can stimulate output growth and employment is through government spending. The government of Swaziland generously pursued the "Millennium Projects" in an effort to stimulate output growth and hence employment. There has, however, been mixed feelings about the manner in which the government has chosen its list of projects. In your view are the millennium projects of any economic value to the Swazi nation?
[10marks]