

**UNIVERSITY OF SWAZILAND
FACULTY OF SOCIAL SCIENCE
DEPARTMENT OF ECONOMICS**

MAIN EXAMINATION PAPER: MAY, 2008

TITLE OF PAPER: MACROECONOMICS

CORSE CODE: ECON 203/ IDE- ECON 203

TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS

1. ANSWER FOUR QUESTIONS. TWO FROM SECTION A AND TWO FROM SECTION B.
2. ALL QUESTIONS CARRY EQUAL MARKS OF 25 EACH

**DO NOT OPEN THIS PAPER UNTIL THE INVIGILATOR
HAS GRANTED PERMISSION**

SECTION A

Question 1

(a) Using the concept of national income identities algebraically derive the savings function in the Simple Keynesian model. Also offer a theoretical explanation of your presentation. [10 marks]

(b) Derive the aggregate demand and equilibrium output equations in the Simple Keynesian model, with the government sector included. (state relevant assumptions)

[15 marks]

Question 2

(a) The Swaziland economy has certain features that determine its growth path, among which are its structural characteristics and its dependency on the South African economy in many areas. Discuss the features of the Swaziland economy and indicate their implications for growth. [15 marks]

(b) Discuss any four factors responsible for the poor economic performance of the Swaziland economy from the late 1990s to date. [10 marks]

Question 3

(a) Why is the IS curve negatively sloped? [4 marks]

(b) Using graphs, show and explain why points above and below the IS curve are referred to as points of excess supply and excess demand for goods. [12 marks]

(c) Compare and contrast the effects of an expansionary fiscal policy on equilibrium in the Simple Keynesian model and the IS/LM model. Present your answer graphically. [9 marks]

Question 4

(a) What is meant by monetary accommodation? [3 marks]

(b) Demonstrate graphically the effectiveness of fiscal policy in the two extreme positions (i.e. liquidity trap and the Classical case). [12 marks]

(c) Discuss the three motives to the demand for money. Sketch their graphs. [10 marks]

SECTION B

Question 5

Write explanatory notes on the following:

- (a) Costs of inflation
- (b) Coincident and leading indicators
- (c) The policy dilemma
- (d) Neutrality of money and Sticky wages
- (e) Inside lag and Outside lag in policy formulation

[5 marks each]

Question 6

(a) Explain the concept of business/ trade cycle. Graphically show the different stages of the business cycle and explain the characteristics of each phase.

[13 marks]

(b) Discuss the three major views to the causes of business cycles.

[12 marks]

Question 7

(a) Define unemployment and discuss any three types of unemployment.

[10 marks]

(b) The youth and the rural dwellers are said to be the most seriously affected by unemployment in Swaziland. Discuss the current initiatives undertaken by the government to combat this problem.

[15 marks]

Question 8

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

[10 marks]

(b) Present and discuss clearly the policy implications portrayed by the "Standard Phillips Curve". Also indicate the criticisms levelled by the Expectations Augmented Phillips curve on the Standard Phillips curve's conclusions.

[15 marks]