

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

SUPPLEMENTARY EXAMINATION PAPER: JULY, 2012

**TITLE OF PAPER: MACROECONOMICS
COURSE 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. Show all relevant workings to your answer
3. All Questions carry a total of 25 marks

SPECIAL REQUIREMENTS: SCIENTIFIC CALCULATOR

DO NOT OPEN THIS QUESTION PAPER UNTIL INSTRUCTED TO DO SO BY THE INVIGILATOR.

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. [7 marks]

(b) Derive the aggregate demand and equilibrium output equations in the Simple Keynesian model, with the government sector included. (state relevant assumptions) [10 marks]

(c) Analyse the impact of an increase in tax rate using the simple Keynesian model. Use a graph. Hint: there are two effects on aggregate demand [8 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) What is the difference between production and income? [5 marks]

(b) Name three major flows in the economy as a whole and explain how they are related. [6 marks]

(c) What is the difference between a stock variable and a flow variable? Give an example of each. [4 marks]

(d) Illustrate the linkages between government, households and firms using the circular flow model of income and spending. [10 marks]

Question 4

(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]

SECTION B

Question 5

- (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.

Question 6

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 7

- (a) Discuss the essential elements of the frictionless neoclassical model. [10 marks]
- (b) Using the AD/AS model show how an expansionary fiscal policy would result in crowding out in the Long run. Explain the adjustment process clearly. [15 marks]

Question 8

- (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]