

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

MAIN EXAMINATION PAPER : MAY, 2013

**TITLE OF PAPER: MACROECONOMICS
CORSE CODE: ECON 203/IDE ECON 203**

INSTRUCTIONS

1. **ANSWER Question 1** and any other **one** question in Section A and any **two** questions in Section B making a total of **FOUR** questions answered.
2. All questions carry equal total marks of 25 each
3. Time allowed for the examination is **THREE** hours

SPECIAL REQUIREMENTS: SCIENTIFIC CALCULATOR

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

SECTION A

Question 1 (COMPULSORY)

- (a) What are the determinants of real money demand? [5 marks]
- (b) When would a fiscal stimulus have a relatively strong effect on real income? [5marks]
- (c) Assume the commodity market and money market for an economy are described by the following IS and LM curves:

$$IS: Y = 11,000 - 250r; LM: Y = 8,000 + 250r$$

- i. Compute the equilibrium interest rate (r) and equilibrium real output (Y). [8 marks]
- ii. Suppose that fiscal policy makers raise taxes and cut government spending. As a result, the IS curve shifts to $Y = 10,000 - 250r$. Compute the new equilibrium interest rate (r) and new equilibrium real output. [7 marks]

Question 2

- a) Briefly discuss the goals and instruments of macroeconomics [15 marks]
- b) Explain the three approaches to the calculation of national output and explain why they should be equal. [10 marks]

Question 3

- (a) Discuss the main differences between demand-pull and cost-push inflation [10 marks]
- (b) Discuss the major benefits of a fixed exchange system [10 marks]
- (c) How is pegging of currencies advantageous to countries that are in a common monetary area? [5 marks]

Question 4

- (a) The fiscal challenge facing the Swaziland economy since the year 2010 has worsened most of the social, economic and developmental problems facing the country. What are the problems that the Swaziland economy is faced with? Where possible use current statistics to indicate the magnitude of the problem. [15 marks]
- (b) What measures has the government put in place to address the fiscal challenges that it faces? [10 marks]

SECTION B

Question 5

Write short notes on any five of the following:

- (a) business cycle
- (b) Functions of money
- (c) Leading, lagging and coincident indicators
- (d) Hedging and speculation in the foreign exchange market
- (e) Endogenous and exogenous variables in economic model
- (f) Static and dynamic analysis

[5 marks each]

Question 6

(a) The Classical and the Keynesian schools of thought do not necessarily disagree on government's role in an economy; however, their contrast is mainly manifest in the level and extent of intervention. Do you agree or disagree with the statement? Justify your answer. [15 marks]

(b) Show how an increase in autonomous spending is likely to affect income and interest rate in the IS/LM analysis of a simple economy? [10 marks]

Question 7

(a) What is meant by monetary accommodation? Demonstrate how this could be used to stabilise effects of a fiscal expansion. Use the IS/LM presentation. [12 marks]

(b) Graphically present and discuss the effectiveness of fiscal policy in the two extreme cases, i.e. the classical case and the Keynesian case. [13 marks]

Question 8

(a) Sketch the various stages of a complete business cycle and discuss the characteristics of each stage. [20 marks]

(b) In most instances monetary policy has a short inside lag compared to fiscal policy. Do you agree with the statement? Support your position. [5 marks]