

UNIVERSITY OF ESWATINI
FACULTY OF SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS

MAIN EXAMINATION PAPER – DECEMBER 2018

MACROECONOMICS I – ECO203 / ECO203 IDE

TIME ALLOWED - TWO (2) HOURS

INSTRUCTIONS

- 1. THE QUESTION PAPER HAS TWO (2) SECTIONS, EACH WITH THREE (3) QUESTION ANSWER ANY TWO (2) QUESTIONS PER SECTION.**

**DO NOT OPEN THE PAPER UNLESS YOU HAVE BEEN
INSTRUCTED TO DO SO.**

Section A

Question 1

- a) Mathematically (Analytically) derive the IS Curve. State all relevant assumptions and intuitive reasoning. [5]
- b) Mathematically (Analytically) derive the IS Curve. State all relevant assumptions and intuitive reasoning. [5]
- c) Analytically derive the equilibrium national income and interest rate. [10]
- d) Why is it advisable to keep inflation under check? [2]
- e) Eloquenty define the concept of monetary accommodation. [3]

Question 2

- a) What are the implications of the increase in VAT on the Swazi economy. [8]
- b) Using a graphic model, show the impact of an open market purchase on interest and output. Be concise in your analysis and clearly show the transmission mechanism and the adjustment to equilibrium process. [10]
- c) If the economy was stuck in the liquidity trap would you advise the use of monetary or fiscal policy? (Use graphic models in your explanation). [7]

Question 3

- a) Outline the costs and benefits to Swaziland of being a member of SADC. [15]
- b) Suppose government increase, what will be the effect on income and interest rate if the LM curve is steep and when the LM curve is flatter? [10]

Section B

Question 4

- a) Assume that capital is perfectly mobile, the price level is fixed and the exchange rate is fixed. What would be the effects of an increase in government purchases? [10]
- b) Suppose exports increase, what will be the effect on income and interest rate if income responsiveness of money demand is low compared to when the income responsiveness of money demand is high? [15]

Question 5

- a) What is the policy dilemma and propose the appropriate policies for dealing with the policy dilemma. [10]
- b) Illustrate the internal and external impact of an increase in economic growth in South Africa on the level of national income, the interest rate of Swaziland. Clearly show the balance of payments adjustment process with perfect capital mobility. [15]

Question 6

An economy shows the following feature;

Consumption $C = 50 + 0.9(Y - T)$

Tax Revenue $T = 100$

Real investments $I = 150 - 5i$

Government Expenditure $G = 100$

Money demand $L = 0.2Y - 10i$

Real money supply $\frac{\bar{M}}{P} = 100$

Exports $X = 20$

Imports $M = 10 + 0.1Y$

- a) Obtain the IS curve and LM curve for this economy. [10]
- b) Obtain the equilibrium level of income and interest rate in this economy. [5]
- c) Find the balance of trade for this economy [5]
- d) Define the balance of payments [3]
- e) Define imports [1]
- f) Define exports [1]