

UGANDA MARTYRS UNIVERSITY, NKOZI CAMPUS

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

ECO 1204: MANAGERIAL ECONOMICS II

DATE: 10/08/2015

Time allowed: 3 hours

Instructions to candidates:

Read the following before answering the examination questions

- 1) Do not write anything on this question paper
- 2) The paper has two sections A and B, both sections carry equal marks
- 3) Section A has 2 questions and all must be answered
- 4) Section B has four (4) questions choose and answer any 2 questions from this section
- 5) Start each question on a separate page

SECTION A

1. (a) (i) Distinguish between Autonomous consumption and Induced consumption (4mks)
- (ii) Given a two sector model, $Y = C + I$, Show the multiplier effect of a change in investment (ΔI) on other parameters of the model (5mks)
- (iii) Given that marginal propensity to consume is $= 0.2$, Determine the multiplier (4mks)
- (b) Examine the drawbacks of the theory of multiplier (12mks)
2. (a) With relevant illustrations discuss each stage of a business cycle. (15mks)
- (b) Suggest possible implications of each stage and the managerial decisions for business sustenance at each stage (10mks)

SECTION B

3. (a) Discuss the objectives of monetary policy in an economy (10mks)
- (b) With practical examples, present the key monetary tools used to regulate money supply (15mks)
4. (a) (i) Given that in a three sector model, total expenditure $E = C + I + G$, total income $Y = C + S + T$, where C, consumption, I, investment, G, government, S, savings and T, tax. Prove that the two parameters are identical (7mks)
- (ii) In a two sector economy, $Y = C + I$, $Y = C + S$. Show the national income identity of the parameters (5mks)
- (b) Using an illustration, explain the circular flow of income in a four sector economy (13mks)
5. With reference to specific examples, present a case for and against free trade (25mks)
6. (a) Account for the high levels of inflation in your country (13mks)
- (b) Examine the economic effects of inflation in an economy (12mks)

END