

UGANDA MARTYRS UNIVERSITY
FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT
DEPARTMENT OF ECONOMICS
BUSINESS ECONOMICS EXAM FOR MBA PART TIME RUBAGA
(2018-2019)
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Instructions

- Section A is compulsory
- Attempt any other three questions in section B
- Time allowed : 03 hours
- Use of appropriate cases and contextual examples will attract additional marks
- Credit will be given for clarity and coherence of arguments.
- Sharing of scholastic materials like rulers and calculators is prohibited
- Do not write anything on the question paper
- Mobile phones are not allowed in the examination room.

SECTION: COMPULSORY (25 MARKS)

Respond to Section A by choosing the Most right answer.

1. The study of behavior of the overall economy is

- A. Positive economics
- B. Microeconomics
- C. Normative economics
- D. Macro economics

2. In the market economy, economic activity is guided by

- A) The government
- B) Corporations
- C) Central planners
- D) The president
- E) Forces of demand and supply

3. Which of the following is not among the reasons why we need the government?

- A. The government provides social services welfare services the poor and the needy
- B. The government provides public goods and services
- C. The government regulates market when there is a market failure
- D. The government provides free food for every one
- E. The government imposes laws and control to protect competitiveness of the industry

4. Which of the following is NOT a central issue in macroeconomics?

- A) How should the central bank of a country fight inflation?
- B) What is responsible for high and persistent unemployment?
- C) How do tax changes influence consumers' choices of what to buy?
- D) What factors determine economic growth?
- E) What can or should the government do to stabilize the economy?

5. Monetary indiscipline by the central bank results into

- A. Cost push inflation
- B. Stagflation
- C. Monetary inflation
- D. Demand pull inflation
- E. All the above

6. The type of unemployment where demand for labor equals to the supply of labour is referred to as

- A. Frictional unemployment
- B. Structural unemployment
- C. Natural rate of unemployment
- D. Keynesian unemployment

7. Which of the following is not a primary cause of business cycle fluctuations according to the real business cycle theory

- A. A change in the production function
- B. A change in the size of the labor force
- C. A change in money supply
- D. A change in real quantity of government purchases

8. In consumption function $c = a + by$

- A. B is intercept
- B. B Slope of the function
- C. C .MPC
- D. D.a & C

9. In Keynesian Framework Income is measured along

- A. 45 degree line
- B. Vertical axis
- C. Horizontal axis
- D. All are correct

10. If investment is exogenous to the Income determination model it can be shown as

- A. A. Verticle line
- B. B. Horizontal line
- C. C. All of the above
- D. D. None of the above

11. In closed economy GDP equals

- A. A. $C+I+X-N$
- B. B. $C+I$
- C. C. $C+I+G$
- D. D. All of the above

Using the knowledge of the business cycle. Answer the following 3 questions

12. Borrowing will be at its lowest during

- A. Peak
- B. Trough
- C. Recession
- D. Contraction

13. Unemployment will be at its lowest

- A. Peak
- B. Contraction
- C. Recession
- D. trough

14. Business profits will be at the highest

- A. Trough
- B. Contraction
- C. Peak
- D. Recession

15. In the model $Y=C+I+G$ and $C=a+by$ Where $b=0.8$, the expenditure multiplier is

- A. 1
- B. 4
- C. 5
- D. None of the above

16. An economy that interacts with other economies is known as

- A. A balanced economy
- B. An export economy
- C. An import economy
- D. A closed economy
- E. An open economy

17. The Phillips curve is often used to show the relationship between

- A) GDP and unemployment in a given year
- B) The rates of inflation and unemployment over time
- C) Employment and GDP
- D) Changes in GDP and the rate of inflation.
- E). Unemployment and GDP growth.

18. When the economy goes into a recession, we can generally expect that

- A) Inflation will decrease while output will increase
- B) Inflation will increase while unemployment will decrease
- C) Inflation and output will increase
- D) Inflation will decrease while unemployment will increase
- E) None of the above

19. Which of these people could officially be counted as unemployed?

- a. A garage attendant who got fired from his old job two months ago but will start a new job in two weeks
- b. A busboy who works only four hours a day, five days a week, but would full-time as a waiter
- c. An accountant who quit her job when she had a baby two months ago
- d. A woman who joined the babysitter's union several months ago and on average gets about five customer's week who pay her \$10/hour rate.

20. Education has elasticity of demand

- a. Positive

- b. Negative
- c. Elastic
- d. Inelastic

21. Substitute good have a Cross elasticity of demand

- a. Unrelated
- b. Right
- c. Negative
- d. Wrong
- e. Positive

22. Change in demand assumes constant

- a. Income
- b. Demand
- c. Price
- d. Supply

23. Disequilibrium occurs when

- a. Supply equals demand
- b. Supply exceed demand
- c. Demand exceed supply
- d. Surplus is constant
- e. b&c

24. Short run Productions assumes

- a. Constant supply
- b. Constant demand
- c. Fixed factors of production
- d. Variable factors of production

25. The short run average cost curves are U- shaped because of

- a. Economics of scale
- b. Law of diminishing returns
- c. Diseconomies of scales
- d. Returned to scale
- e. Fixed costs

SECTION B: Choose only three questions (75 Marks)

QUESTION TWO

- There is always a misconception when people talk about Business economics yet in reality they mean macroeconomics. As a student of business economics module, help to clear this confusion by conceptually distinguishing between the two concepts (5marks)
- Describe the business areas to which business economics can be applied (8marks)
- Relate scarcity, choice and opportunity cost (3marks)
- Explain 4 problems that the problem of scarcity is likely to cause in the business environment (4marks)

QUESTION THREE

a) The willingness to pay for sausages at Rubaga main canteen is given as below:

| Price for sausages | 1000 | 900 | 800 | 700 | 600 | 500 | 400 |
|--------------------------------|------|-----|-----|-----|-----|-----|-----|
| Quantity demanded by student A | 0 | 1 | 2 | 3 | 4 | 5 | 6 |
| Quantity demanded by student B | 2 | 4 | 6 | 8 | 10 | 12 | 14 |
| Quantity demanded by student C | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

- Plot and explain the demand curve for student B (5mks)
- Give the market price as 600, calculate the consumer surplus for Student C (10mks)
- Plot your findings in (ii) above on the curve (5mks)
- Given the overall demand schedules for Sausages as $Q_d = 14 - 2p$ and $Q_s = 2 + 2p$. Solve for equilibrium price and quantity. (5mks)

QUESTION FOUR

Traditional theory assumes profit maximisation as the sole objective of business firms, however firms have been found by other scholars like Baumol pursuing other objectives of the firm.

- Clearly state and explain the necessary and sufficient conditions that must be fulfilled for the firms to maximise profits (05mks)
- Briefly explain any other five alternative objectives of the firm (10mks)
- Explain the importance of setting objectives to the firms permanence and operations (5mks)

QUESTION FIVE

In late 2000, Ford introduced the Taurus- a newly designed, aerodynamically styled, front-wheel drive automobile. The car was a huge success at that time and helped Ford almost to double its profits by 2002. The design and efficient production of this car involved not only some impressive engineering advances but a lot of economics as well. Ford had to think carefully about how the public would react to the Taurus design.

- Describe 4 steps that a manager has to undertake in order to make a proper managerial decision on how to ensure that Ford Taurus becomes successful (8mks)
- Explain in detail 4 decision problems such a manager is faced with (4mks)
- As the manager tries to attempt to solve the above problems, he is faced with 5 fundamental questions that he has to answer, describe them briefly (5mks)
- Discuss the pricing strategies that can be employed by Ford to allow it balance its objectives and the consumers' objectives. (8mks)

QUESTION SIX:

a) Consider the following Keynesian National income model

$$Y = C + I + G, C = C_0 + bY_d, Y_d = Y - T + T_{ro}, T = T_0 + ty.$$

Clearly Identify the endogenous and exogenous variables in the model (3mks)

b) Suppose

$$C = 40 + 0.8(Y - T + T_{ro}) \quad T = 20 + 0.2Y, T_{ro} = 10, I = 30, G = 20$$

Obtain

- The value of equilibrium National income (3mks)
- The level of saving (2mks)
- Government multiplier (2mks)
- Government budget position (3mks)

c) What advice would you give to your government to increase its National income figures so that its citizens enjoy a better welfare (7mks)

d) State 5 statistical problems encountered in conducting national income accounting (5mks)

QUESTION SEVEN

- With an appropriate illustration, explain the trade-off between unemployment and inflation (05mks)
- Of what effect is inflation to business environment and the entire economy (10mks)
- Assuming you have chosen to represent Unemployed Youth to National Employment Creation Board, what noble strategies would you propose to the board to reduce the high Youth unemployment in your country (10mks)