

UGANDA MARTYRS UNIVERSITY, LUBAGA CAMPUS

**FACULTY OF BUSINESS ADMINISTRATION AND
MANAGEMENT**

DEPARTMENT OF ECONOMICS

BAM I & MF I SEMESTER TWO 2017/18

COURSE UNIT: MANAGERIAL ECONOMICS II

DATE: Monday, 7th May 2018

Time allowed: 4:00pm-7:00pm

Instructions to Candidates:

Read the following before answering the examination questions.

- 1) Do not write anything on this question paper.
- 2) Write neatly and show all workings clearly.
- 3) Start every question on a new page
- 4) Clearly state the question number & sections attempted
- 5) Answer **any four** questions, Section **A** is compulsory

SECTION A: COMPULSORY

Respond to section A by choosing the most appropriate 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 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. Macroeconomics does NOT focus on

- A) Policies that affect consumption and saving
- B) Policies that affect the performance of health care providers
- C) The determination of changes in wages and prices
- D) The determination of interest rates
- E) None of the above, all of them are micro economics issues

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

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

10. In Keynesian Framework Income is measured along

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

11. 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

12. 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

13. Borrowing will be at its lowest during

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

14. Unemployment will be at its lowest

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

15. Business profits will be at the highest

- A. Trough
- B. Contraction

- C. Peak
- D. Recession

16. 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

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

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

18. Which of the following isn't a central issue in macroeconomics?

- A. The deregulation of banking industry
- B. Inflation of prescription drug prices
- C. The effect of exercise taxes on consumer's buying patterns
- D. None of the above

19. 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.

20. 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

21. 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 averages about five customers a week at her \$10/hour rate.
- e. None of the above

22. Increasing the legal reserve requirement results into

- A. High money supply

- B. Increased prices
- C. Low money supply
- D. High interest level
- E. All the above

23. The magnitude of money supply in the country is influenced by activities of the following actors except

- A. The general public
- B. The central banks
- C. The politicians
- D. The central banks
- E. The domestic and foreign investors

24. Government efforts to achieve stability by changing tax and spending policies are part of:

- A) Fiscal policy
- B) Monetary policy
- C) Wage and price controls.
- D) Industrial policy
- E) Discretionary policy.

25. According to classical economist, Aggregate Demand primarily determines:

- A) Levels of national output and income.
- B) Total production in the economy.
- C) Aggregate Supply a full employment.
- D) The price level.

SECTION B: ANSWER THREE QUESTIONS ONLY

QUESTION TWO

a) In the three sector economy, $C=20+0.2(Y-T)$ $I_o=100$, $G_o=400$ and $T=10+0.1Y$
Compute

I. The equilibrium level of national income **(08marks)**

II. Autonomous consumption **(04marks)**

III. Calculate and interpret the government budget position **(04marks)**

b) Why should the government of an economy like Uganda put enormous resources in national income computation? **(09marks)**

QUESTION THREE

a.) With illustrative examples from your country, examine the causes of persistent unemployment in your country. **(10marks)**

b) What socio-economic effects is likely result from this unemployment problem in your country? **(10marks)**

c) Suggest 5 possible strategies that your country needs to undertake to reduce unemployment problem. **(05marks)**

QUESTION FOUR

Given the following assumptions

- i. Presence of many banks say A, B, C, D....in the banking system
- ii. 25% cash ratio
- iii. The first bank has Ugx 120,000 as deposits
- iv. The loan amount drawn by customer in one bank is deposited in full in the second bank

Basing on the above assumptions explain the process of credit creation by

- i. With working, tabulate the credit creation process for the 4 banks **(12marks)**
 - ii. What would be the total deposit created **(04marks)**
 - iii. Calculate the credit multiplier **(04marks)**
- b) Describe 5 tools that can be used by the central bank to control the amount credit in circulation. **(05marks)**

QUESTION FIVE

a) Why is developing countries national income figures always lower than those of developed countries? **(10marks)**

b) Identify and explain the key conceptual and statistical problems normally encountered when computing National Income statistics **(15marks)**

QUESTION SIX

a) Suppose the general price level in December 2016 was 6000 and by December 2017 it had rose to 4800, calculate and comment on the rate of inflation by the degree of intensity **(05marks)**

b) Identify and explain 4 key theories of inflation. **(08marks)**

c) Suggest policy measures to control inflation in developing countries **(12marks)**

QUESTION SEVEN

a) Clearly distinguish between classical and Keynesian theories of demand for money. **(10marks)**

b) Distinguish between discretionary money supply and automatic money supply **(05marks)**

c) What factors determine money supply in a growing economy? **(10marks)**

END