UGANDA MARTYRS UNIVERSITY

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

BAM 1& BSC FINANCE & ACCOUNTING

ECO 1204: MANAGERIAL ECONOMICS II

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DATE: 04.05.2015

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.   For a two sector model, $Y = C + I$.

(i)   Show the multiplier effect of a change in investment (ΔI) on other parameters of the model (5marks)

(ii) Given that marginal propensity to consume is $= 0.5$, Determine the multiplier   (4 marks)

(ii)   Present the assumptions of the multiplier theory, and examine the drawbacks of the theory

        (16mks)

2. (a) Discuss the determinants of national income in an economy   (12 marks)

(b) Explain the reasons why national income may not be the best measure of economic development

        (13marks)

SECTION B

$O = Y = E$

3. (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

3 sector Economy $Y = E = O$

$Y = E$

$Y = O$

$E = O$

    (7 marks)

$Y = E$
$E = O$
$Y = O$
$Y = E = O$

(ii) In a two sector economy, $Y = C + I$, $Y = C + S$. Show the national income identity of the parameters

$Y = C + I$
$Y = C + S$, $\;\; Y = S + I$ $\;\; \checkmark\; Y = E$

    (5 marks)

$S = I$

(b)Using an illustration, explain the circular flow of income in a three sector economy

    (13 marks)

$S = I$

$I = Y - T$

$T = T_0 / ty$

4. Foreign Aid is more of a liability than an asset to the economic development of developing countries. Examine the validity of the statement

$S = Y - (T_0 + T_y)$

    (25 marks)

$mps + mpc = 1$

$multiplier = \dfrac{1}{mps} = \dfrac{1}{1 - mpc}$

$= \dfrac{1}{1 - 0.5} = -$

$\Delta I = \dfrac{\text{Change in income}}{\text{Change in Inv. Expd}}$

$= \dfrac{\Delta Y}{\Delta I}$

5a. Using an appropriate illustration explain the relationship between unemployment and inflation (10marks)

b. Why is the control of inflation of importance to a business manager?   (15 marks)

6a. Discuss the objectives and limitations monetary policy in LDCs   (13 marks)

b. Explain the expansionary monetary policy using the IS-LM curve   (12 marks)

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END