

# UGANDA MARTYRS UNIVERSITY

FACULTY OF SCIENCE  
DEPARTMENT OF ECONOMICS

UNIVERSITY EXAMINATIONS  
SEMESTER 2 2013/2014

YEAR THREE EXAMINATIONS FOR BACHELOR OF SCIENCE GENERAL &  
BACHELOR OF ECONOMICS

ECO3201: ADVANCED MACROECONOMIC THEORY

DATE: 6<sup>TH</sup> MAY 2014

TIME: 10:00 – 1:00PM

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**Instructions:**

- i. Answer any **FOUR** (4) questions, well argued and illustrated answers will earn more marks.
  - ii. Read through the questions carefully and follow the instructions on the answer booklets
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1. Countries always strive to increase their gross Domestic product (GDP) hoping that this will increase their economic welfare. What do you think about this kind of aspiration and why?
2. What is meant by an economy in steady state equilibrium? Under what circumstances and how can an economy be improved from such an equilibrium?
3. What is meant by the "sacrifice ratio"? In light of this ratio, is it necessary to fight inflation in an economy? Argue your case for or against very carefully.
4. Suppose you were faced with an economy that has been hit by a shock that has dislocated it from its full employment level of output and you were asked to put it back to its full potential. What policy strategies would you choose from to do so? If you choose one, why would you choose that specific one and not the other?
5. Distinguish between life-cycle income theory and permanent – income hypothesis. How would you turn the money you win in a lottery ticket into a permanent income? Are there problems related to these theories and which are they?
6. How does a potential investor decide to or not to invest in a particular project? What are the component parts of rental cost of capital and what is the significance of each component?
7. "Inflation is a monetary phenomenon". Discuss the validity or the invalidity of this statement.

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