

Uganda Martyrs University
FACULTY OF SCIENCE
FINAL ASSESSMENT SEMESTER II 2006 - 2007
ADVANCED MACRO-ECONOMICS
BSC III B.ECON

DATE: 9TH MAY 2007

TIME: 9.00 – 12.00NOON

Instructions

Answer four questions. **Two** from each section

SECTION A

- 1 a) With the help of appropriate illustrations, discuss the slope of both aggregate demand and aggregate supply, indicating circumstances under which these curves may shift. **(15 marks)**
b) When does a macroeconomic equilibrium occur? Illustrate your answer. **(10 marks)**
- 2 a) Examine the role of Fiscal and monetary policies in macroeconomic stability **(15 marks)**
b) Discuss the limitations of the monetary policy in your country. **(10 marks)**
- 3 a) Clearly explain the assumptions of the Lucas supply curve (the market clearing approach) **(10 marks)**
b) Under what scenarios does the model operate? **(10 marks)**
c) What are the implications of the Lucas supply curve **(5marks)**
- 4 a) How does the Phillips curve explain the existing tradeoff between inflation and unemployment? **(10 marks)**
b) What modifications can be made in the short-run in Phillips curve **(5marks)**
c) What are other causes of inflation **(10 marks)**

SECTION B

- 5 a) Define unemployment **(3 marks)**
b) Discuss the meaning of “National rate of unemployment” **(7 marks)**
c) What are the types of unemployment? **(15 marks)**
- 6 a) Differentiate between a deficit budget and a surplus budget **(5 marks)**
b) Explain how a government can finance a deficit budget clearly indicating limitations of each measure **(10 marks)**
c) Under what circumstances may the National budget be a burden **(10 marks)**
7. “Economic growth is any economy’s most powerful engine for generating long-term increase in the living standards of the people”

Discuss this statement in line of the GDP and GNP figures of a country.
(25 marks)

8. a) How is production function an important factor in discovering long-term growth of a country? **(13 marks)**
b) What is the role of capital in growth? **(10 marks)**

END