

Uganda Martyrs University

School of Arts and Social Sciences

DEPARTMENT OF GOVERNANCE, PEACE AND INTERNATIONAL STUDIES

B.A PUBLIC ADMINISTRATION AND MANAGEMENT

PAM 1106: INTRODUCTION TO MACROECONOMICS

YEAR One 2022/2023 End of Semester II Exams

MONDAY 22nd /05/2023

9:30 am - 12:30 noon

INSTRUCTIONS:

- Answer **three** questions only.
- Question **one** of section A is compulsory and carries 40 marks
- Answer any two Questions from section B. Each question carries 30 marks
- All Questions should start on a fresh page

SECTION A: COMPULSORY

1. South Sudan inflation indicators show that Consumer Price Index (CPI) stands at 16, 473 index points, food inflation is -7%, inflation rate is 1.3%, CPI Housing Utilities is 15070 index points, CPI Transportation IS 18,143 Index points (National Bureau of Standards 2023)
 - a) Describe the kind of inflation observed here (10 marks)
 - b) Explain the causes of inflation in South Sudan (10 marks)
 - c) What are the negative effects of these kinds of inflation on the economy of South Sudan? (10 marks)
 - d) Suggest pragmatic measures to reduce inflation in South Sudan (10 marks)

SECTION B:

2.
 - a) Discuss the characteristics of a good tax. (10 marks)
 - b) Explain the different forms of direct tax. (10 marks)
 - c) With relevant examples, explain the disadvantages of direct taxes (10 marks)
3. The national budget framework paper, with proposals of Ushs. 49.98 trillion Budget for the financial year 2023/2024, has been passed by Parliament. The proposed budget will be financed through domestic revenue equivalent to Ushs 28.8 trillion, budget support amounting to Ushs 2.4 trillion, domestic borrowing of Ushs 1.6 trillion, and external project support of Ushs. 8 trillion.
Domestic revenue is projected to amount to Ushs. 28, 831.1 billion (13.8% of GDP) from an estimate of Ushs 25,550.7 while *Government expenditure and net lending* in the FY 2023/24 are projected to amount to Ushs 37,247.4 billion. Over the medium term, current expenditures will average 10.8% of GDP while development expenditure will average

8.5% of the GDP. A total of Ushs. 8,343.8 billion is projected as external financing in the FY 2023/2024. Of this, Ushs. 2,452.1 billion will be obtained as budget financing loans and Ushs. 5891.7 billion from project loans. Majority of the project loans (Ushs.3, 078.3 billion) will be obtained under concessional terms. *Domestic borrowing* from the domestic market for fiscal purposes in the FY 2023/2024 is projected at Ushs. 1,585.0 billion compared to Ushs.5, 007.9 billion in the FY 2022/2023 which is equivalent to 1% of the GDP. External debt repayment is projected to amount to Ushs. 2,453.2 billion compared to Ushs. 2,412 billion in the FY 2022/2023. Over the medium term, external debt payments are projected to increase due to increased commercial loans over the last few years. *Interest repayments* are projected to amount to Ushs. 6,135.5 billion equivalent to 2.9% of the GDP. Of this, Ushs. 5,227.6 billion is projected for domestic interest payments while the remaining amount equivalent to Ushs. 907.9 billion will be foreign interest payments and commitment fees. Over the medium term, interest payments are projected to average 2.3% of the GDP.

The preliminary resource envelope for the FY 2023/2024 is projected at Ushs. 49,988.7 billion compared to Ushs. 48, 130.7 billion for FY2022/2023. This reflects an increase of Ushs.1, 858.0 billion. It should however be that whereas the resource envelope has increased by shs.1, 858.0 billion, the discretionary resource envelope is reduced by Ushs. 2,533 billion due to the projected increase in the interest obligations and obligations to settle Bank of Uganda redemptions.

The total resource envelope of Ushs. 49,988. 7 billion is comprised of domestic revenue equivalent to Ushs 28,831.1 billion, budget support amounting to Ushs. 2,491.6 billion, domestic borrowing amounting to Ushs. 1,585.0 billion, external project support worth Ushs 8,043.6 billion, domestic refinancing (roll over) of Ushs. 8,798.9 billion, and local revenue for local government (AIA) of Ushs.238.5 billion (Nayiga, 20th February 2023 about Uganda's 2023/2024 UGX 50 Trillion budget).

- a) You have been tasked to make a presentation to the Ministry of Finance, Planning and Economic Development (MoFPED): Explain to them the causes of debt in Uganda (15 marks)
 - b) Advise the MoFPED on the best strategies to manage the budget and debt in Uganda (15 marks)
4. a) Critically examine the Keynesian theory of unemployment (15 marks)
b) You have been invited to advise the Government of Uganda on how to manage unemployment. Demonstrate your skills. (15 marks)
 5. Explain the following exchange rate determination forms
 - a) The Gold Standard (8 marks)
 - b) Fixed Exchange Rate (8 marks)
 - c) Floating Exchange Rate (7 marks)
 - d) Mixed (managed float) system (7 marks)