UGANDA MARTYRS UNIVERSITY

NKOZI

UNIVERSITY EXAMINATIONS

END OF SEMESTER FINAL EXAMINATIONS
SEMESTER II, 2015/16

FACULTY OF SCIENCE

DEPARTMENT OF ECONOMICS

THIRD YEAR EXAMINATION FOR BECHELOR OF SCIENCE GENERAL, & BUSINESS ECONOMICS

Advanced Macroeconomic Analysis
ECO 3201

DATE: 4th May, 2016

TIME: 9:30 AM – 12:30PM

DURATION: 3 HOURS

Instructions:

1. *Carefully read through ALL the questions before attempting*
2. ***ANSWER Four (4) Questions. Well argued answers with illustrations will earn more marks***
3. *No **names** should be written anywhere on the examination book.*
4. *Ensure that your **Reg Number** is indicated on all pages of the examination answer booklet.*
5. *Ensure your work is **clear** and **readable**. Untidy work shall be penalized*
6. *Any type of examination Malpractice will lead to automatic disqualification*
7. *Do not write anything on the questions paper.*

QUESTION ONE

(a) What are the main problems does macroeconomics study, and what are the effects of each problem in the economic growth of a country? [15 Mks]

(b) How is output gap related to the business cycles of a country? [10Mks]

QUESTION TWO

In an economy, how can an imbalance of investment from savings be bridged if;

a) The trade balance of balance of payments is in balance. [5Mks]

b) The government is running a balanced budget. [5 Mks]

c) The government is running a balanced deficit on its account but the trade balance of balance of payment is in surplus? [15mks]

QUESTION THREE

(a) According to the Neo-classical economists, what are the sources of economic growth of a country? [5Mks]

(b) Assuming an economy experiencing a Cobb-Douglas production function, with constant returns to scale, and a known rate of technical progress, how can you determine that country's economic growth rate? [20Mks]

QUESTION FOUR

(a) Define aggregate supply and aggregate demand. [5Mks]

(b) If we assume a quantity theory of money, demonstrate how an increase in the stock of money will affect aggregate demand under conditions of;
 (i) Keynesian aggregate supply [5Mks]
 (ii) Classical aggregate Supply [5Mks]

(c) Through the mechanism of price adjustment, how can a Keynesian aggregate supply curve be transformed into a classical aggregate supply curve? [10Mks]

QUESTION FIVE

(a) What does the Okun's law state and of what significance is this law to economic policy makers in their activities as economic advisors? [10 Mks]

(b) What is a supply shock? What considerations should policy makers bear in mind when reacting to a shock when it strikes? [15Mks]

QUESTION SIX

(a) How is consumption determined in a life cycle hypothesis? [7Mks]

(b) How does a change in _ the consumers disposable income affect the consumers expenditure if the change is:

(i)Once – off? [4 Mks]

(ii)Permanent? [4Mks]

(c) How is the rental cost of capital determined? [10Mks]

QUESTION SEVEN

With the aid of a diagram, show the relationship between the level of employment/ unemployment and balance of payments situation. [25Mks]

END