UGANDA MARTYRS UNIVERSITY
FACULTY OF SCIENCE
MACROECONOMICS (II) EXAM (Supplementary/Special)
DATE: 11TH AUGUST 2015
TIME: 2.00 - 5.00 PM

Instructions:

- ***Answer any four questions***
- ***All questions carry equal marks.***

Question One

(a) Using relevant examples, write short notes on the following economic concepts:

i. Gross domestic Product **(3Marks)**
ii. Aggregate demand **(3Marks)**
iii. Marginal propensity to consume **(3Marks)**
iv. GDP deflator **(2Marks)**
v. The classical quantity theory of money by Irving Fisher (1911) **(4Marks)**

(b) Examine the importance of national income statistics in an economy **(10Marks)**

Question Two

(a) What is meant by Real GDP **(2Marks)**
(b) Discuss the major determinants of the level and size of GDP in an economy. **(10Marks)**
(c) An economy is described by the following model: $\mathbf{Y = C + I + G + X - M}$; **where**: $C = 150 + 0.75Y_d$, $I = 100$, $G = 115$, $X = 35$, $M = 15 + 0.1Y$, $T = 20 + 0.2Y$. All values for C, I, G, T, X and M are in millions of U.S dollars.

Required:

i. Compute the equilibrium national income level (Y_e). **(5Marks)**
ii. Compute the government multiplier, the tax revenue, consumption expenditure and trade balance at equilibrium level of national income. **(8 Marks)**

Question Three

(a) Distinguish between demand pull inflation and bottleneck inflation. **(5 Marks)**
(b) Examine the effects of inflation on your economy (Uganda) for the period 2011/2012.**(10 Marks)**
(c) What policy measures has Uganda applied to reduce the prevailing inflationary trends in her economy? **(10 Marks)**

Question Four

(a) Briefly describe the theory of comparative advantages as used in foreign trade. **(5 marks)**
(b) Explain why developing countries benefit less from international trade. **(10 Marks)**
(c) What policy measures should Uganda adopt to improve her position in foreign trade.**(10 Marks)**

Question Five

(a) Briefly describe the real and monetary sectors of the economy and using the graph explain the conditions when they are said to be in equilibrium. **(5 Marks)**

(b) Given the that the real sector of the three sector economy is described by a macroeconomic model $Y = C + I + G_0$, Where: $C_o + bY_d$, $I = I_0 - hr$, and $Y_d = Y - T_0$ while the monetary sector is given by demand for money $M_d = M_t + M_{sp}$ such that $M_t = kY$ and $M_{sp} = g - lr$.
Assuming that the money supply (M_s) is fixed and exogenously determined, derive the algebraic expressions for **IS** and **LM** Curves. **(10 Marks)**

(c) If the real sector is now given as $C = 100 + 0.75Y_d$, $I = 200 - 2000r$, $G = 100$, and $T = 100 + 0.2Y$ and the monetary sector is given as $M_t = 0.5Y$, $M_{sp} = 100 - 2500r$ and $M_s = 200$, derive the expressions for **IS** and **LM** curves. Hence determine the interest rate(r) and equilibrium level of income(Y) when the two sectors are in equilibrium. **(10 Marks)**

Question Six

(a) Briefly describe the concept of foreign exchange rate state the reasons for persistent foreign exchange rate volatility Uganda? **(10 Marks)**

(b) Examine the effects of foreign exchange rate volatility on an economy? **(08 Marks)**

(c) Discuss appropriate strategic measure that should be adopted to mitigate the causes and effects of foreign exchange rate volatility in Uganda? **(07 Marks)**

END