Uganda Martyrs University

Faculty of Science
Final Assessment Semester Two 2008/2009
ECO 3201: Advanced Macroeconomics Analysis
BSc 3 GEN & B.Econ

Date: 28th April 2009   **Time 9.00 – 12.00noon**

INSTRUCTIONS:

Answer any FOUR questions. Well argued and illustrated answers will earn more marks.

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1. If you were given gross domestic products (GDP) figures of two countries and that of one country is three times larger than that of the other, what factors would you put into consideration before you interpret these figures in terms of state of economic welfare of the two countries?

2. Given a Cobb-Douglas production function
   $Y = AK^aN^b$,   where   Y is the output (GDP)

   A is the scale of production

   K is the capital input

   N is the labour input

   a and b are parameters showing the response of output to changes in the inputs capital and labour respectively.

   a) How do factor inputs affect the level of output (GDP)?

   b) How can capital (K) be increased?

3. The economies of the world are presently facing economic crunch with many production firms laying off workers and governments putting in practice bailing out expenditures using public funds. What is the type of aggregate supply schedules (Classical or Keynesian) assumed in these operations? Why? Why would it be wrong if the other type of aggregate supply was assumed?

4. Define the Phillips curve. What is the relationship between the Phillips curve and the aggregate supply schedule?

5. Distinguish clearly between duration and frequency of unemployment. What factors determine each of these concepts?

6. Assume that the marginal propensity to consume in an economy, c, is 0.8, and the income tax rate, t, is at 0.25. Now, the government decides to reduce transfer payments by $\Delta TR = -10$ and increase its purchases by $\Delta G = 10$. What effects will these changes have on national income? Why is it that there is a difference on national income between the two operations?

7. Define an IS curve and LM curve giving the characteristics of each. What is the significances of their point of intersection? How can you get an aggregate demand schedule from the two curves?

*** GOOD LUCK ***