



FACULTY OF BUSINESS MANAGEMENT
END OF SEMESTER EXAMINATIONS - APRIL 2025

PROGRAMME: BBA, BPA

YEAR/SEM: YEAR 1/SEMESTER 2

COURSE CODE: ECO 1201

NAME: INTRODUCTION TO MACROECONOMICS

DATE: 2025-04-23

TIME: 9:00AM-12:00PM

INSTRUCTIONS TO CANDIDATES:

1. Read the instructions very carefully
2. The time allowed for this examination is STRICTLY three hours
3. Read each question carefully before you attempt and allocate your time equally between all the Sections
4. Write clearly and legibly. Illegible handwriting cannot be marked
5. Number the questions you have attempted
6. Use of appropriate workplace examples to illustrate your answers will earn you bonus marks
7. Any examination malpractice detected will lead to automatic disqualification.

DO NOT WRITE ANYTHING ON THE QUESTION PAPER

Section A Section A is compulsory

Question 1:

Read the following Essay and use it to answer the questions that follow:

In an attempt to reduce the large budget deficit, the government raised taxes and reduced government expenditure but unemployment soared and the budget deficit actually increased. A leading economist remarked: “The time to attempt to reduce the deficit is when the economy is at overfull employment. Then policies designed to reduce the deficit will not only work but they will also achieve other desirable macroeconomic goals”

- a) Do you agree with the economist? Why or why not? Explain with relevant examples justifying your decision **(08marks)**
- b) Why is it so difficult to balance the government budget? **(06marks)**
- c) To achieve a balanced budget what other macroeconomic goals are likely to be sacrificed and why? **(06marks)**
- d) With reference to the above, explain the causes of Government Budget deficits in an economy. **(08marks)**
- e) With reference to the above, explain the adverse effects of budget deficits on the economy **(06marks)**
- f) Identify and explain the policy measures to reduce budget deficits in an economy.

(06marks)

Section B Attempt any three questions

Question 1:

- a) Consider labor market data for a stylized economy:

Year	Population	Employed	Unemployed
2020	410	170	30
2021	420	180	25
2022	430	182	22

- i) Calculate the labor force participation rate and unemployment rate for each of the three years above. **(08marks)**
- ii) In terms of the labor force participation and unemployment rates calculated in part (a), Discuss whether the labor market has been strengthening or weakening during the three

years shown above. Defend your answer and consider more than one possible explanation for the observed trends. **(12marks)**

Question 2:

- a) Using clear illustrations, distinguish between the following:
 - i) Currency Appreciation and Depreciation. **(03marks)**
 - ii) Nominal exchange rate and Real exchange rate **(04marks)**
- b) Using illustration, describe the effects of a quota on domestic price, output, consumption and on import. **(07marks)**
- c) Discuss the arguments for trade barriers in an economy **(06marks)**

Question 3:

Consider an economy with two goods, cheese and salad. Suppose that the prices and quantities sold in 2012 and 2013 are the following:

Goods	2012 Price	2013 Price	2012 Quantity	2013 Quantity
Cheese	10	12	10	9
Salad	15	16	5	8

- a) Calculate the nominal GDP for 2012 and for 2013. Explain how you got your numbers **(04Marks)**
- b) Calculate the real GDP for 2013 using 2012 as a base year **(04Marks)**
- c) Calculate the real GDP growth rate for 2012 to 2013 **(04Marks)**
- d) Calculate the cost of the CPI basket if the market basket includes 2 cheese and 1 salad in 2012 **(04Mark)**
- e) Assume that the base year is 2012 and the market basket includes 2 cheese and 1 salad. Calculate the CPI for 2013 **(04Marks)**

Question 4:

- a) What is meant by macroeconomics and state the macroeconomic Problems? **(06Marks)**
- b) As a student of macroeconomics, explain why macroeconomics is important in a market economy **(06 Marks)**
- c) With relevant examples, explain the macroeconomic functions of the different sectors below:
 - i) Household sector **(02marks)**
 - ii) Business sector **(02marks)**
 - iii) Government sector **(02marks)**

Question 5:

Eco Land is currently facing economic challenges with the following data:

- Current GDP (Y): \$800 billion
- Potential GDP (Y*): \$1 trillion
- Current Unemployment Rate (U): 8%
- Natural Rate of Unemployment (U*): 5%
- Current Inflation Rate (\dot{P}): 6%
- Expected Inflation Rate: 4%

The government is planning a stimulus package to boost production, reduce unemployment, and manage inflation.

- a) If the government expects the stimulus to increase GDP by 15%, calculate the new GDP after the stimulus. How does this align with the goals of reducing unemployment according to Okun's Law? **(10Marks)**
- b) If the stimulus also leads to a projected inflation rate increase of 2%, calculate the new inflation rate after the stimulus. **(04Marks)**
- c) Suppose a similar economy has an unemployment rate of 7% and inflation at 5%. If it has a natural rate of unemployment of 4%, calculate the change in GDP required using Okun's Law to achieve the natural rate of unemployment. **(06Marks)**

Question 6:

- a) A financial crisis has led to a contraction in the money supply as banks tighten lending standards and reduce credit availability. Analyze the impact of a decrease in the money supply on investment, consumption, and aggregate demand. **(06Marks)**
- b) Given the cash reserve requirement (cr) of 20%, initial clients deposits of Ushs. 5000,000 and assuming that all financial transactions take place in the banks.
 - i) Use 3 banks to demonstrate how commercial banks create credit **(03Marks)**
 - ii) Compute the final and actual deposit. **(03Marks)**
- c) A central bank is tasked with managing inflation to ensure price stability and sustainable economic growth. Discuss the tools and mechanisms available to the central bank for controlling inflation and maintaining confidence in the national currency. **(08Marks)**