



MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

AUGUST SESSION EXAMINATION FOR

BACHELOR OF EDUCATION

EET 101: MACROECONOMICS THEORY I

DATE: SCHOOL BASED

TIME:

INSTRUCTIONS:

1. Answer Question **ONE** and any other **TWO** questions
2. Do not write on the question paper.

QUESTION ONE (COMPULSORY)

- a) Macroeconomic models are simplified explanations or theories of how the economy works. Discuss the importance of economic models. (6 marks)
- b) Write short notes on the following methods of measuring national income
- i. Income approach (2 marks)
 - ii. Expenditure approach (2 marks)
 - iii. Output approach (2 marks)
- c) Discuss the properties and functions of money. (8 marks)
- d) Discuss the permanent income hypothesis of consumption. (4 marks)
- e) Given a closed economy equilibrium $Y=C+I$ where $C=a +bY$ and $I=I_0$
- i. Derive the equilibrium income (\bar{Y}) (3 marks)
 - ii. Suppose the autonomous investment increases by ΔI , derive the investment multiplier (3 marks)

QUESTION TWO (20 MARKS)

- a) With aid of graphs discuss the factors that shift IS curve. (8 marks)
- b) Unemployment is a major challenge in African economies. Discuss at least four causes of unemployment and suggest possible remedies. (12 marks)

QUESTION THREE (20 MARKS)

- a) There is consumption at zero income because consumption also depends on other factors. Discuss at least four other determinants of consumption. (8 marks)

- b) Given the following information:

Money market

Money demand: $(M/P)^d = L(Y, r) = 50 + 0.8Y - r$

Money supply $MS/P = 80$

Goods market

Households $C = 320 + 0.8Y^d$ $Y^d = Y - T$

Firms $I = 40 - 40r$

Government $G = 80$

Taxes $T = 50$

Where $L(Y,r)$ represents the demand for real money balances in this economy, MS/P represents the real money supply set by the central bank.

- i. Derive the equation for LM curve. (4 marks)
- ii. Derive the equation for IS curve. (4 marks)
- iii. Compute the equilibrium values of Y (income) and r (interest rate) in this economy. (4 marks)

QUESTION FOUR (20 MARKS)

- a) Discuss at least six the difficulties encountered in national income accounting. (6 marks)
- b) Differentiate between fixed and flexible exchange rate. (4 marks)
- c) Discuss determinants of investment expenditure. (10 marks)

QUESTION FIVE (20 MARKS)

- a) Is per capita income a good measure of material well being of the people? Discuss. (6 marks)
- b) Explain the following concepts used in macroeconomics.
 - i. Multiplier (2 marks)
 - ii. Macroeconomic model (2 marks)
 - iii. Marginal propensity to consume (2 marks)
 - iv. Gross Domestic Product (2 marks)
- c) Discuss the causes of cost push inflation. (6 marks)