



MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FIRST YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF EC BACHELOR OF ACTUARIAL SCIENCE

BACHELOR OF STATISTICS AND PROGRAMMING

BACHELOR OF ECONOMICS & STATISTICS

BACHELOR OF ECONOMICS & FINANCE

BACHELOR OF EDUCATION (ARTS)

BACHELOR OF ECONOMICS,

BACHELOR OF ARTS

EET 101: MACROECONOMIC THEORY I

DATE: 22/7/2019

TIME: 2:00 – 4:00 PM

INSTRUCTIONS:

- (i) Answer question one (Compulsory) and any other two questions**
- (ii) Do not write on the question paper**
- (iii) Show your working clearly**

QUESTION ONE (COMPULSORY 30 MARKS)

a) The following equations describe a certain economy

$$C = 400 + 0.75Y^d \rightarrow \text{consumption function}$$

$$I = 200 - 100r \rightarrow \text{Investment function}$$

$$T = 70 + 0.2Y \rightarrow \text{Tax function}$$

$$G = 100 \rightarrow \text{CGovernment expenditure}$$

$$X = 10 \rightarrow \text{Exports}$$

$$M = 150 + 0.06Y \rightarrow \text{Im port function}$$

$$M^S = 4000 \rightarrow \text{Moneysup ply}$$

$$M^D = 0.2Y - 10r \rightarrow \text{Money demand}$$

Required

- i) Derive the IS and LM equations (6 marks)
 - ii) Calculate the equilibrium Y, C, T, M and I (10 marks)
- b) Briefly discuss the differences between these concepts as used in macroeconomics
- i) GDP ,GNP and NNP (3 marks)
 - ii) Paradox of Thrift (3 marks)
 - iii) Classical and Keynes theories demand for money (8 marks)

QUESTION TWO (20 MARKS)

- a) In reference to Kenya, examine any five (4) problems that one may encounter in the measurement of National Income (8 marks)
- b) The Kenya Annual budget economic growth is a good step towards informing the public on the performance of the economy, however it has some shortcomings if not addressed we will have not have the economic performance in real term. Discuss (12 marks)

QUESTION THREE (20 MARKS)

- a) Using appropriate diagrams discuss three motives of holding money according to Keynesian demand for money (8 marks)
- b) State and discuss the methods of measuring national income (12 marks)

QUESTION FOUR (20 MARKS)

- a) Developing countries have experienced persistent and rising inflation and unemployment problems explain any three of the major causes and Suggest any four economic policies that may be used to reduce the magnitude of their major problem (12 marks)

b) Using a simple open economy Derive equilibrium income

- i) Define term multiplier (3 marks)
- ii) Derive import, interest rate and government purchase multipliers (5 marks)

QUESTION FIVE (20 MARKS)

- a) Using appropriate diagrams of the LM and the IS curves .Explain factors that cause shifts on the two curves (LM and IS) (8 marks)
- b) Briefly discuss any five types of unemployment experienced in Kenya and their possible causes (10 marks)