



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FIRST YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF SCIENCE (STATISTICS AND PROGRAMMING)

BACHELOR OF SCIENCE (ACTUARIAL SCIENCE)

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

BACHELOR OF COMMERCE

BACHELOR OF ARTS

EET 101: MACROECONOMIC THEORY I

DATE: 22/3/2021

TIME: 2.00-4.00 PM

INSTRUCTIONS:

Answer Question ONE and any other TWO questions

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Assume a closed economy where the level of investment is 300 and the savings function is
- $$S = -30 + 0.15Y$$
- Calculate the equilibrium level of income. (3 marks)
 - What will be the increase in national income if investment increases by 25? (3 marks)
 - Suppose government reduced taxes by 100 in this economy, what would be the change in national income? (3 marks)
 - Illustrate (iii) above using a well labelled diagram of the Keynesian cross (5 marks)
 - Suppose the consumption function of a closed economy is given by $C = 50 + 0.80Y$ and the planned investment is 200. Calculate equilibrium level of income. (2 marks)

- b) In the circular flow of income, what is meant by the following?
- i. GDP (2 marks)
 - ii. Injections (2 marks)
 - iii. Withdrawals (2 marks)
- c) Briefly explain the two types of exchange rate regimes. (4 marks)
- d) Explain how monetary policy and fiscal policy can be used to correct inflation (4 marks)

QUESTION TWO (20 MARKS)

- a) Differentiate between narrow money (M_1) and broad money (M_2). (4 marks)
- b) Why do people hold money when they can earn interest by lending it to others or by buying interest yielding bonds? (6 marks)
- c) Which major objectives does macroeconomics focus on? Explain. (8 marks)
- d) Distinguish between depreciation and devaluation (2 marks)

QUESTION THREE (20 MARKS)

- a) The following data relate to an emerging African country.

Item	Value ('000) KSHS
GNP	8,000,000
Depreciation	100,000
Indirect Business Taxes	80,000
Gross Investment	400,000
Total population	30,000
Consumption	10,000
Personal Income Taxes	800
Excise duty	80
Personal Income	89,000
Net factor incomes from abroad	200,000

Using the above data, calculate:

- i. Net National Product (2 marks)
- ii. GNP per capita (2 marks)

- iii. Net investment (2 marks)
- iv. Disposable personal income (2 marks)
- v. Gross domestic product (2 marks)
- b) Is deflationary gap same as inflationary gap? How can it be corrected? (10 marks)

QUESTION FOUR (20 MARKS)

- a) Discuss the following:
 - i. Money (credit) creation (2 marks)
 - ii. Cyclical unemployment (2 marks)
 - iii. Natural (potential) output (2 marks)
 - iv. Price level (2 marks)
 - v. Main functions of commercial banks (2 marks)
- b) What measures would you suggest to control inflation in Kenya? (10 marks)

QUESTION FIVE (20 MARKS)

- a) Discuss the main Limitations of National Income Statistics. (10 marks)
- b) Discuss any three types of unemployment. (6 marks)
- c) Graphically derive the IS curve (4 marks)