MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FIRST YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS

EET 101: MACROECONOMICS THEORY I

DATE: 21/1/2021   **TIME: 11.00-1.00PM**

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)   Kenya may sometimes face a sharp depreciation of its shilling to major foreign currencies which may result in a balance of payment disequilibrium. Discuss the various measures that would be applied to help correct the disequilibrium.   (8 marks)

b)   Given the following data;

$$C = 400 + 0.75Y^d$$
$$I = 200 - 100r$$
$$T = 70 + 0.2Y$$
$$G = 100$$
$$X = 10$$
$$M = 150 + 0.06Y$$
$$M^s = 4000$$
$$M^D = 0.2Y - 10r$$

Required:

    i)   Derive the IS and LM equations   (7 marks)

ii) Calculate the equilibrium Y, C, T, M and I (5 marks)

c) Highlight the approaches to measuring of National income of any given country. (3 marks)

d) Explain the meaning of the following terms as used in Macro-economics:

i) Ratchet effect

ii) Liquidity trap

iii) Crowding out

iv) Money illusion

v) Phillips curve

vi) Economic model

vii) Currency Devaluation (7 marks)

QUESTION TWO (20 MARKS)

a) Which major objectives does macroeconomics focus on? Explain. (8 marks)

b) Suppose that consumption, C=10+0.85Y and Equilibrium level of investment is Ksh.540. Compute the Equilibrium Income and Consumption. (4 marks)

c) By use of a graph, explain the effect of increase in money supply on interest rate. (8 marks)

QUESTION THREE (20 MARKS)

a) Various economies have different levels of national income following the reported GDP levels. What could be the source of this difference. (8 marks)

b) Is deflationary gap same as inflationary gap? How can it be corrected? (10 marks)

c) Differentiate between injections and withdrawals as used in the circular flow of income.

(2 marks)

QUESTION FOUR (20 MARKS)

a) Discuss the demand management policies that can be used to cure inflation in Kenya.

(6 marks)

b) One goal of macroeconomics policy is to attain a fully employed economy. But most of the less developed economies have been characterized by a state of unemployment. In light to this, explain the causes of unemployment in an economy and suggest any four policies that can be used to cure them. (14 marks)

QUESTION FIVE (20 MARKS)

a) With reasons, what can you say about per capita income in measuring social welfare.

(9 marks)

b) Differentiate between narrow money and broad money.   (2 marks)

c) Why should Jane hold money when she can earn interest by lending it to margaret or even buy an interest yielding bond?   (6 marks)

d) Graphically derive the LM curve   (3 marks)