



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 ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ARTS (ECONOMICS)

BACHELOR OF ECONOMICS

BACHELOR OF COMMERCE

EET 101: MACROECONOMIC THEORY I

DATE: 12/8/2021

TIME: 11:00 – 1:00 PM

INSTRUCTIONS TO CANDIDATES

1. Answer question ONE and any other TWO questions
2. Question ONE Carries a total of 30 marks, while all other questions carry 20 marks each
3. Being in possession of mobile phone and/or unauthorized electronic gadget constitutes an exam irregularity.
4. Being in possession of written materials, in exam room, in any form constitutes an exam irregularity.
5. Do not write on question paper

QUESTION ONE (30 MARKS)

- a) Distinguish between the following concepts
- | | |
|---|-----------|
| i) Marginal propensity to save and average propensity to save | (2 marks) |
| ii) Appreciation and devaluation of currency | (2 marks) |
| iii) Balance of payment and balance of trade | (2 marks) |
| iv) Precautionary and speculative money demand | (2 marks) |
| v) Fixed and flexible exchange rate regime | (2 marks) |

- b) Distinguish between withdrawals and injections and explain how they do affect the size of the circular flow of income and expenditure in an economy. (8 marks)

The following information is for country X which is total population of 15 million people

Item	Ksh.million
Social insurance contribution	6000
Government transfer payments to persons	2800
Undistributed corporate profits	3000
National income	35000
Personal savings	2600
Indirect taxes	4400
Capital consumption allowance	3900
Interest payment by government	3000
Personal taxes	3200
Subsidies given by government	2600

Required;

Compute the following;

- i) Gross National Product (GNP) (3 marks)
- ii) Per Capita income (2 marks)
- iii) Personal income (3 marks)
- iv) Personal consumption expenditure (2 marks)
- v) Disposable income (2 marks)

QUESTION TWO(20 MARKS)

- a) A change in investment spending can cause the C+I line to shift equilibrium at full employment position. Illustrate and discuss the scenarios when this can occur and explain the various interventions that can bring back this economy to its full employment. (10 marks)
- b) National income accounting is very paramount to any country that is conscious about its growth and development. Discuss the national income difficulties in estimation of national income. (10 marks)

QUESTION THREE (20 MARKS)

- a) Economics will carry out the operations under either micro-economics or macro-economics. Discuss the importance and limitations of macroeconomics. (8 marks)
- b) The following information describe a certain economy;
 $C=400+0.75Y^d$
 $I=200-100r$
 $T=70+0.2Y$

$$G=100$$

$$X=10$$

$$M=150+0.06Y$$

$$M_s=4000$$

$$M_d=0.2Y-10r$$

- a) Derive the IS and LM equations from the above information. (4 marks)
- b) Determine the equilibrium income, interest rate, consumption, tax, investment and imports. (8 marks)

QUESTION FOUR (20 MARKS)

- a) Explain how classical and Keynesian views about determinants of consumption, savings and investment differ. (4 marks)
- b) Discuss how the following policies can be used to control inflation in an economy
- i) Demand management policies (4 marks)
 - ii) Prices and income policies (4 marks)
 - iii) Indexation (4 marks)
- c) Show and explain the graphical derivation of the LM curve (4 marks)

QUESTION FIVE (20 MARKS)

In the recent years Kenya has been experiencing inflation tendencies that have eroded the value of money thereby making people worse off.

- i) Discuss by use of examples the various types and causes of inflation in Kenya. (10 marks)
- ii) Any country that fails to control inflation is doomed to fail. What are the economic effects and remedies that can be recommended for any economy to apply and bring inflation under control? (10 marks)