



# **MACHAKOS UNIVERSITY**

**University Examinations for 2020/2021 Academic Year**

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ECONOMICS**

**FIRST YEAR SECOND SEMESTER EXAMINATION FOR**

**BACHELOR OF SCIENCE IN ACTUARIAL SCIENCE**

**BACHELOR OF ECONOMICS AND STATISTICS**

**BACHELOR OF ECONOMICS AND FINANCE**

**BACHELOR OF ECONOMICS**

**BACHELOR OF COMMERCE**

**BACHELOR OF EDUCATION**

**BACHELOR OF ARTS**

**EET 101: MACROECONOMICS THEORY I**

**DATE: 17/6/2021**

**TIME: 11.00-1.00 PM**

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## **INSTRUCTIONS:**

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

## **QUESTION ONE (COMPULSORY) (30 MARKS)**

- a) State whether the following statements are TRUE or FALSE. Explain your answer. (4 marks)
  - i. Underemployment occurs when individuals are willing and able to work but can't find job at the existing wage rate.
  - ii. Autonomous saving and autonomous consumption expenditure are positive.
  - iii. In macroeconomic goods market equilibrium is attained when money demand is equal to money supply.
  - iv. In his quantity of money theory, Fisher emphasized the importance of interest rate.
- b) Explain any six issues that macroeconomists address in any economy. (6 marks)
- c) In your own view, is GDP a good measure of economic welfare? Explain. (8 marks)
- d) Distinguish between the following economic concepts. (8 marks)
  - i. Capital account and current account

- ii. Structural unemployment and cyclical unemployment
  - iii. Classical national income model and Keynesian national income model
  - iv. IS curve and LM curve
- e) Suppose a three-sector economy is characterized with the following equations:
- $C = a + bY_d$
- $I = I_0 + I_1Y$
- $G = G_0$  and  $T = t_0 + t_1Y$   $X = X_0$   $M = M_0$
- i. Derive equilibrium level of income. (2 marks)
  - ii. Suppose autonomous government expenditure increases by  $\Delta G$ . Determine the government expenditure multiplier. (2 marks)

**QUESTION TWO (20 MARKS)**

- a) Suppose an economy's data of national income accounts is give as:

	ITEM	US DOLLARS (MILLIONS)
1	Consumption Expenditure	2442
2	Gross private investment	620
3	Wages and salaries	1906
4	Income of self employed	210
5	National insurance and security trust fund	170
6	Government subsidies	506
7	National housing fund	130
8	Rents	96
9	Exports	170
10	Imports	320
11	Personal income tax	390
12	Company income tax	152
13	Government expenditure on goods and services	696
14	Capital consumption allowance	366
15	Net income from abroad	96
16	Undistributed profits	174
17	Indirect taxes	330
18	Dividends	190

- a) Required; Calculate
- i. GDP at market price ( $GDP_{MP}$ ) using expenditure approach (3 marks)
  - ii. GDP at market price ( $GDP_{MP}$ ) using income approach (3 marks)
  - iii. Gross National Product at factor cost ( $GNP_{FC}$ ) (3 marks)
  - iv. Net National Product at market price ( $NNP_{MP}$ ) (1 marks)

- b) In spite of effort made to stabilize prices over the past decade, inflation in most of developing countries has spiralled out of control. Explain five causes and solutions of inflation in your country. (10 marks)

**QUESTION THREE (20 MARKS)**

- a) Explain four differences between commercial banks and central banks. (8 marks)
- b) Macroeconomic models are simplified explanations or theories of how the economy works. Discuss the importance of economic models. (6 marks)
- c) It is necessary for any economy to limit international trade. What are some of tools used to limit trade in your country? Explain. (6 marks)

**QUESTION FOUR (20 MARKS)**

- a) Unemployment is a major challenge in African economies. Discuss at least five causes of and remedies to unemployment. (10 marks)
- b) Suppose that an economy is characterized by the following equations:  
 $C = 400 + 0.75(Y-T)$        $I = 400 - 25r$        $G = 200$        $T = 200$   
 $MS = 2,000$        $P = 2$        $(M/P) d = Y - 200r$
- Derive;
- i. IS curve (3 marks)
- ii. LM curve (3 marks)
- iii. Equilibrium level of income and interest rate. (4 marks)

**QUESTION FIVE (20 MARKS)**

- a) Using well labelled diagrams discuss the circular flow of income in a four-sector economy. (8 marks)
- b) Clearly discuss the classical quantity theory of money demand. (6 marks)
- c) Explain any six determinants of planned consumption expenditure. (6 marks)