



MUEO

MOI UNIVERSITY

**OFFICE OF THE DEPUTY VICE CHANCELLOR ACADEMIC AFFAIRS,
RESEARCH AND EXTENSION**

UNIVERSITY EXAMINATIONS 2013/2014 ACADEMIC YEAR

FIRST YEAR END OF SEMESTER II EXAMINATIONS

SCHOOL OF BUSINESS AND ECONOMICS FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: ECO 111

**EXAM TITLE: INTRODUCTION TO
MACROECONOMICS**

DATE: 19TH FEBRUARY, 2014

TIME: 2 .00 P.M. – 5.00 P.M.

INSTRUCTION TO CANDIDATES

➤ **SEE INSIDE.**

BACHELOR OF ARTS IN ECONOMICS FINAL EXAM

2013/2014 ACADEMIC YEAR

FIRST YEAR, SECOND SEM

ECO 111: INTRODUCTION TO MACROECONOMICS

INSTRUCTIONS: Answer any four questions, all questions carry equal marks

QUESTION ONE

- a) Define the following terms
- | | |
|------------------------|-----------|
| Macroeconomics | (2 marks) |
| Multiplier | (2 marks) |
| Gross National Product | (2 marks) |
| Net National Product | (2 marks) |
- b) Define the term bank and demonstrate the process of credit creation by commercial banks (7 marks)
- c) Explain five national income affects economic welfare of the citizen of a country (10 marks)

QUESTION TWO

- a) Discuss the relationship between the marginal propensity to consume (MPC) and the marginal propensity to save (MPS) (6 marks)
- b) Explain three factors that determine marginal propensity to consume (6 marks)
- c) Examine four factors that determine money supply in an economy (8 marks)
- d) Explain the three motives of holding money (6 marks)

QUESTION THREE

- a) Explain the Keynes psychological law of propensity to consume (5 marks)
- b) The following is a model for a 3 sector economy;
- a. $Y = C + I + G$,
- b. If $C = 100 + 0.7Y$, $I = 200$, $G = 100$

On the same plane/ graph, show the following curves;

The consumption function curve indicating the autonomous and the induced consumption (4 marks)

The aggregate demand function curve (3 marks)

Calculate the following;

The equilibrium national income (5 marks)

The multiplier (3 marks)

- c) Using appropriate Kenyan examples discuss the Wage Inflation (5 marks)

QUESTION FOUR

- d) Using appropriate diagrams, distinguish between Keynesian theory of employment and the classical theory of employment. (9 marks)

- e) In reference to income determination model for the four sector economy, discuss the following effects on the equilibrium Aggregate Demand and National Income using appropriate diagrams.
- Increase in V.A.T (5 marks)
 - Decrease in marginal propensity to save (5 marks)
- f) Differentiate between autonomous and induced investment (6 marks)

QUESTION FIVE

- a) Explain the says law (5 marks)
- b) Distinguish between the quantity theory of money and the Keynesian theory of money (6 marks)
- c) Explain the reasoning behind the Phillips curve on inflation and unemployment (6 marks)
- d) Examine the Fiscal and Monetary policies that government uses to reduce inflation (8 marks)

QUESTION SIX

- a) Discuss four causes of unemployment and examine the common types of unemployment in Kenya (15 marks)
- b) Using appropriate Kenyan examples discuss the following types of inflation;
 - Cost-push Inflation (5 marks)
 - Demand pull Inflation (5 marks)