



MUEO

**MOI UNIVERSITY**

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

**UNIVERSITY EXAMINATIONS  
2014/2015 ACADEMIC YEAR**

***FIRST YEAR END OF SEMESTER EXAMINATIONS***

**FOR THE DEGREE OF  
BACHELOR OF BUSINESS MANAGEMENT**

**EXAM CODE:- ECO 111**

**COURSE TITLE:- INTRODUCTION TO MACROECONOMICS**

**DATE:- 16<sup>TH</sup> APRIL, 2015**

**TIME:- 2.00P.M. – 5.00P.M.**

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**INSTRUCTION TO CANDIDATES**

➤ **SEE INSIDE.**

**THIS PAPER CONSISTS OF (2) PRINTED PAGES**

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**MOI UNIVERSITY**

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ECONOMICS**

**SECOND SEMESTER 2014/2015 A/Y EXAMINATION FOR THE DEGREE OF BACHELOR OF ARTS IN ECONOMICS AND BACHELOR IN BUSINESS MANAGEMENT**

**ECO 111: INTRODUCTION TO MACROECONOMICS**

**INSTRUCTIONS TO CANDIDATES: ANSWER ANY FOUR QUESTIONS. ALL QUESTIONS CARRY EQUAL MARKS**

**QUESTION ONE**

- (a) (i) Distinguish between microeconomics and macroeconomics. (5 marks)  
(ii) Explain briefly the growth and development of macroeconomics and highlight the factors that led to the emergence of new macroeconomic theories. (10 marks)
- (b) Describe a two sector economy as circular flows of income, expenditure, factors of production, goods and services. (10 marks)

**QUESTION TWO**

- (a) Explain the methods of measuring National Income of an economy and discuss the limitations of these methods. (15 marks)
- (b) Distinguish the following terms as used in the measurement of National Income:  
(i) Gross National Product (GNP) and Gross Domestic Product (GDP). (4 marks)  
(ii) GNP at Market prices and GNP at factor cost. (3 marks)  
(iii) Personal Income (PI) and Personal Disposable Income (PDI). (3 marks)

**QUESTION THREE**

- (a) Explain and illustrate graphically the Classical Theory of Employment and Output Determination. (10 marks)
- (b) Discuss briefly the reasons for the collapse of the Classical economic theories of employment and output. (5 marks)
- (c) Define unemployment and Critically examine the Kazi Kwa Vijana and Uwezo Fund initiatives as measures to curb unemployment and their (initiatives) relationship with GDP in Kenya (10 marks)

## QUESTION FOUR

- (a) State the assumptions of the Keynesian model of Income determination in a two sector economy. Explain the simple model of income determination and show how equilibrium income is determined. (10 marks)

- (b) Suppose the structural equations of an economy are given as:

$$AD = C + I_0$$

$$C = 250 + 0.8Y$$

$$I_0 = 200$$

- Find the equilibrium values of Y and C (8 marks)

- (c) Suppose in this economy there is an injection in investment of  $\Delta I = 50$ , work out the new equilibrium income and the multiplier. (7 marks)

## QUESTION FIVE

- (a) Discuss the main functions of money in an economy. (6 marks)
- (b) Explain reasons why a monetary system emerged from the Barter system? (5 marks)
- (c) Explain the motives for the demand for money in an economy. (6 marks)
- (d) Discuss the relationship between money supply and economic growth (8 marks)

## QUESTION SIX

Examine the causes, effects and remedies of unemployment in developing countries (25 marks)

END