MUEO

MOI UNIVERSITY

OFFICE OF THE DVC ACADEMIC AFFAIRS, RESEARCH AND EXTENSION

UNIVERSITY EXAMINATIONS
2015/2016 ACADEMIC YEAR

FIRST YEAR END OF SEMESTER EXAMINATIONS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

EXAM CODE: ECO 111

EXAM TITLE: INTRODUCTION TO MACROECONOMICS

DATE: 11TH DECEMBER, 2015   TIME: 9.00 A.M.– 12.00 NOON.

INSTRUCTION TO CANDIDATES

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ECO 111: INTRODUCTION TO MACROECONOMICS EXAMINATION

Instructions: Answer any four questions; all questions carry equal marks.

QUESTION ONE
a) Explain the relationship between inflation and unemployment   (9 marks)
b) Using relevant diagrams distinguish between demand pull inflation and cost push inflation
                                                                                         (10 marks)
c) Distinguish between microeconomics and macroeconomics.   (6 marks)

QUESTION TWO
a) Using a relevant diagram, explain how Income and resources flow in an open economy like Kenya
                                                                                         (12 marks)
b) Discuss the instruments of monetary and fiscal policies that the government of Kenya can employ to reduce inflation rate   (13 marks)

QUESTION THREE
a) Given the following information,
   $I_0 = 100$, $G_0 = 100$, $a = 20$, $b = 0.7$, $t = 0.2$
   Calculate:
       The Equilibrium National Income   (4 marks)
       The Multiplier   (3 Marks)
       The Consumer Spending   (2 marks)
b) Demonstrate the effects that savings, taxes and imports have on the multiplier   (6 marks)
c) State and explain any <u>Five (5)</u> qualities of a good money   (10 marks)

QUESTION FOUR
a) Distinguish between Precautionary and Speculative demand for money   (10 marks)
b) Distinguish between Absolute Income Hypothesis and Relative Income Hypothesis theories of consumption   (15 marks)

QUESTION FIVE
a) In relation to demand and price, derive the Aggregate Demand Curve   (5 marks)
b) Distinguish between the Quantity Theory of Money and the Keynesian Theory of Demand for Money
                                                                                         (10 marks)
c) State and explain five (5) determinants of money supply   (10 marks)

QUESTION SIX
a) Using a relevant diagram explain how Income and Expenditure flow in an open economy like Kenya
                                                                                         (15marks)
b) Distinguish between multiplier effect and accelerator effect   (5 marks)
c) Given the following model: AD = C + I + G, Graphically show how introduction of Exports and Imports shall affect the Aggregate Demand Curve   (5 marks)