MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

SUPPLEMENTARY EXAMINATION FOR

DIPLOMA IN ACCOUNTANCY

DACC 114: MACROECONOMICS

DATE: **TIME:**

INSTRUCTIONS:

Answer QUESTION ONE and any other TWO Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) With an aid of well labelled diagram distinguish between relative income hypothesis and lifecycle income hypothesis. (10 marks)

b) Explain the main functions of the central bank. (10 marks)

c) Explain the difficulties experienced when measuring National Income. (10 marks)

QUESTION TWO (20 MARKS)

a) Explain three major types of unemployment experienced in Kenya. (5 marks)

b) Discuss three adverse effects caused to society by a high rate of unemployment. (5 marks)

c) To what extent can fiscal and monetary policies be used to alleviate the problems of general unemployment? (10 marks)

QUESTION THREE (20 MARKS)

a) Explain five goals of macroeconomic policy. (10 marks)

b) What is devaluation of currency? (5 marks)

c) Explain the methods that can be used to correct trade deficit. (5 marks)

QUESTION FOUR (20 MARKS)

a) Equilibrium in balance of payments implies that net inflow or outflow of foreign currency is zero. Explain the methods that can be used to correct the balance of payment deficit. (10 marks)

b) Using an illustration clearly distinguish between marginal propensity to save and marginal propensity to consume (5 marks)

c) Explain the factors that determine consumption. (5 marks)

QUESTION FIVE (20 MARKS)

a) Clearly distinguish between the following pair of terms: (10 marks)

   i) Autonomous consumption and marginal propensity to consume
   ii) Frictional and structural unemployment
   iii) Devaluation and depreciation of currency
   iv) Gross national product and Gross domestic product
   v) Fiscal and monetary policy

b) Assuming that the central bank implemented a policy that is meant to increase the money supply in the economy. Using an illustration, explain the effect of this policy on interest rate. (5 marks)

c) The following equations describe a certain economy (5 marks)

$C = 300 + 0.85Y^d \longrightarrow$ Consumption function

$I = 300 - 200r \longrightarrow$ Investment function

$T = 70 + 0.2Y \longrightarrow$ Tax function

$G = 100 \longrightarrow$ Government expenditure

$X = 10 \longrightarrow$ Exports

$M = 150 + 0.06Y \longrightarrow$ Import function

$M^s = 4000 \longrightarrow$ Money supply

$M^D = 0.2Y - 10r \longrightarrow$ Money demand