MACHAKOS UNIVERSITY

University Examinations for 2020/20201Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FIRST YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF SCIENCE (STATISTICS AND PROGRAMMING)

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

BACHELOR OF EDUCATION

EET 101: MACROECONOMICS THEORY I

DATE: **TIME:**

INSTRUCTIONS:

- **(i) Answer question one (Compulsory) and any other two questions**
- **(ii) Do not write on the question paper**
- **(iii) Show your working clearly**

QUESTION ONE (COMPULSORY) (30 MARKS)

a) i) Using a well labelled diagram, illustrate how income flows between various economic actors in an open economy. (4 marks)

ii) What is the role of each of the actors shown in a(i) above? (4 marks)

iii) With reference to a(i), distinguish between leakages and injections, giving examples of each. (2 marks)

b) i) Using the expenditure approach, and assuming an economy where there is no government intervention, derive the IS Equation. (4 marks)

ii) If MPC = 0.6, Y = ksh.1240 and taxes are expected to change by ksh.40. Compute the new level of income. (3 marks)

c) By use of a graph, explain the meaning of ratchet effect and paradox of thrift. (6 marks)

d) Differentiate between narrow money (M_1) and broad money (M_2) and explain the various attributes that money must have. (7 marks)

QUESTION TWO (20 MARKS)

a) Explain how 'price and income policies' can be used to correct inflation levels in a country. (10 marks)

b) Graphically, illustrate the concept of aggregate demand for money as argued by Keynes. (6 marks)

c) What determines the size of an Economy's National Income? (4 marks)

QUESTION THREE (20 MARKS)

a) i) Which are the five types of unemployment evident in most developing countries? (5 marks)

ii) In light of a(i), suggest any five policies that can be used to correct the situation. (5 marks)

b) Explain what you understand by a Fixed Exchange Rate regime, and illustrate with the help of a graph how a country maintains it. (*Assume the equilibrium exchange rate of Kshs.107/ US $ 1*). (10 marks)

QUESTION FOUR (20 MARKS)

a) What are the roles of financial institutions in any economy? (5 marks)

b) Define the following terms as used macroeconomics: (5 marks)

i. Net National Product

ii. GNP per capita

iii. Net investment

iv. Disposable personal income

v. Gross domestic product

c) What are the reasons why an individual should hold money? (3 marks)

d) What can you comment on Per Capita Income in measuring the wellbeing of an individual in a given economy? Support your opinion with explanations. (7 marks)

QUESTION FIVE (20 MARKS)

a) Write short notes on the following: (10 marks)

i. Absolute Income Hypothesis

ii. Relative Income Hypothesis

iii. Permanent Income Hypothesis

iv. Life-cycle Income Hypothesis

b) Which are the constraints of macro-economic theory application in real life experience? (6 marks)

c) Is deflationary gap the same as inflationary gap? (4 marks)