

MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS**

**2013/2014 ACADEMIC YEAR**

**SECOND YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF SCIENCE (AGRICULTURAL ECONOMICS)**

**COURSE CODE: ARE 202**

**COURSE TITLE: PRINCIPLES OF MACROECONOMICS**

**DATE: 14TH APRIL 2014 TIME: 2 – 5pm**

**INSTRUCTIONS TO CANDIDATES**

Answer question **ONE** and any other **THREE** questions

1 (a) Explain the importance of macroeconomics **(7mks)**

(b) Explain the three approaches used in the measure of the National          Income. **(6mks)**

(c) If the government expenditure increased by 45% from the initial           expenditure of KSh. 400 and the consumption function is given by           C = 200 + 0.6Y. What would be the new equilibrium income if the           current income is KSh. 1500? **(8mks)**

(d) Derive tax multiplier **(6mks)**

2 Discuss the problems encountered in National Income accounts measurements **(15mks)**

3 (a) Explain Keynes’s motives for holding money (7mks)

(b) Discuss the components of the following measures of supply of           money **(8mks)**

1. M1 or transaction money
2. M2 or Broad Money
3. M3

4 (a) Explain the difference between Fiscal and Monetary policy **(4mks)**

(b) How does the government expenditure lead to “crowding out          effect”? **(6mks)**

(c) Given the following, calculate the equilibrium income. **(5mks)**

5 (a) Discuss the causes of “natural” unemployment **(8mks)**

(b) Discuss the policy measures to curb unemployment **(7mks)**

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