**MAASAI MARA UNIVERSITY**

**HIGHLANDS STATE COLLEGE**

**APRIL 2017 DRAFT EXAMINATIONS**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF BUSINESS MANAGEMENT**

**YEAR 1 SEMESTER 1**

**UNIT CODE: ECO 111**

**UNIT TITLE: INTRODUCTION TO MACRO ECONOMICS**

***INSTRUCTION TO CANDIDATES***

* ***Answer Question ONE(compulsory) and any other THREE***
* ***Question one carries 25 marks***
* ***All other questions carry 15 marks each***

**QUESTION ONE**

1. In a certain economy the marginal propensity to save is 0.2 and the autonomous consumption is 400 billion

**Required**

1. Formulate the consumption function **(5 Marks)**
2. Explain the relationship between simple multiplier and marginal propensity to consume **(5 Marks)**
3. Explain the difference between cost-push and demand pull inflation

**(5 Marks)**

1. Describe the principal macro-economics objective of a developing country like Kenya **(5 Marks)**
2. Briefly describe the quantity theory of money **(5 Marks)**

**QUESTION TWO**

1. With a suitable illustration discuss how Phillips curve explain the trade – off between  
   unemployment and inflation? **(8 Marks)**
2. Explain the roles played by the Central Bank **(7 Marks)**

**QUESTION THREE**

1. Suppose the structural equation of an economy is given as follows:  
   Y = C + I  
   C = 100 + 0.65Y  
   I = 80  
   Find the equilibrium value for income, consumption and savings**(8 Marks)**

b) Examine the significance of protection in a developing economy **(7 Marks)**

**QUESTION FOUR**

1. Discuss the common unemployment problems experienced in developing countries. Suggest suitable remedies. **(8Marks)**
2. Distinguish between monetary and fiscal policy. Explain how these methods are used to solve macro-economic problems. **(7 Marks)**

**QUESTION FIVE**

1. In the recent past the Kenyan economy experienced high and rising inflation rate which almost brought the economy to its knee,. Explain the causes and economic consequences associated with this. **(10 Marks)**
2. Write brief notes on the Keynesian motive regarding demand for money

**(5 marks)**