



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**FIRST YEAR SECOND SEMESTER EXAMINATIONS FOR THE
DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION
WITH INFORMATION TECHNOLOGY**

HOMA-BAY CAMPUS

AEC 102: INTRODUCTION TO MACROECONOMICS

Date: 10th December, 2016

Time: 9.00 - 12.00 noon

INSTRUCTIONS:

- **Answer question ONE and any other THREE questions.**
- **Question one carries 25 marks and the rest 15 marks each**
- **Marks will be awarded for being neat, clear and use of relevant diagrams.**



QUESTION ONE

- (a) Explain the shortcoming of using per capita income in comparing the standards of living of people in different countries (9marks)
- (b) Given a behavioral equation of an open economy as :
 $C=100+b(Y-50-tY)$
 $I=50, G=50, X=10, M=5+0.1Y, b=0.8$ and $t=0.25$
Required:
(i) Specify endogenous and exogenous variables (3marks)
(ii) Find reduced form of equilibrium income and Consumption (3marks)
- (c) Differentiate between flows and stocks in macroeconomics using an example in each case (5marks)
- (d) Draw a circular flow of income of a closed economy and highlight its assumption (5marks)

QUESTION TWO

- (a) What is the difference between Real Gross Domestic Product and Nominal Gross Domestic Product? (4marks)
- (b) Explain the qualities of a good money material that makes it solve the problem of barter system of trade. (8marks)
- (c) What are the components of money supply in an economy? (3marks)

QUESTION THREE

Discuss the determinants of terms of trade. What is the situation of Kenya's terms of trade? (15marks)

QUESTION FOUR

- (a) Inflation is a macroeconomic variable affecting development of every economy. Discuss (10marks)
- (b) Explain the causes of inflation in Kenya. (5marks)

QUESTION FIVE

- (a) Explain the importance of economic globalization (8marks)
- (b) Using examples, differentiate between structural and cyclical unemployment (5marks)

QUESTION SIX

- (a) Explain how exchange rates are determined in an economy and the advantages of flexible exchange rate over fixed exchange rate policies (10marks)
- (b) Discuss Kenya's policies aimed at promoting her exports as a way of ameliorating balance of payment deficits (5marks)