



# MASENO UNIVERSITY

## UNIVERSITY EXAMINATIONS 2016/2017

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

**CITY CAMPUS – EVENING/REGULAR**

**AEC 102: INTRODUCTION TO MACRO-ECONOMICS**

Date: 21<sup>st</sup> November, 2016

Time: 5.30 - 8.30 pm

### **INSTRUCTIONS:**

- Answer question ONE and any other THREE questions.
- Question ONE carries 25 marks and the rest 15 marks each.
- Use diagrams for illustration where necessary.



## QUESTION ONE (COMPULSORY)

- (a) Succinctly explain the methods of computing national income of a country citing the necessary adjustments each case (12 marks)
- (b) What is the difference between gross domestic products and gross national product? Which one is greater in the case of a developing economy like Kenya and Why? (4 marks)
- (c) Given a simple Keynesian model of national income ( $Y=C+I$ )  
Where:  
 $Y = \text{Kshs. } 7,500$   
 $C = 1000 + 0.8Y$   
 $I = 500$   
 $\Delta I = 100$
- (i) Calculate and interpret the multiplier and the new equilibrium level of income and consumption. (6 marks)
- (ii) Derive savings function and compute savings before the change in equilibrium (3marks)

## QUESTION TWO

- (a) Describe the concept of accelerator principle of investment and differentiate it from investment multiplier (5marks)
- (b) Explain the determinants of investment in an economy. (10 marks)

## QUESTION THREE

- (a) State and discuss the role of money in the development of an economy and how it has solved the problems experienced during the barter system of trade. (10 marks)
- (b) Explain how commercial banks create credit and the limits to credit creation. (5 marks)

## QUESTION FOUR

- (a) Briefly argue the case for protectionism policy (6marks)
- (b) Explain the term "Balance of Payments" and suggest remedial measures for balance of payments deficits (9marks)

## QUESTION FIVE

- (a) How can the government, through the central bank can use both fiscal and monetary policies to influence the stability and performance of an economy? (10 marks)
- (b) What the relationship between unemployment and inflation rate is as was propounded by Philips and hence the Phillips curve? Do you agree with Phillips? Explain (5marks)

## QUESTION SIX

- (a) Explain the importance of computing national income of a Country (6 marks)
- (b) Differentiate between Real Gross Domestic Product and Nominal Gross Domestic Product (4 marks)
- (c) Briefly highlight how the government of Kenya tries to promote exports as a means of reducing budget deficits (5 marks)