



MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2015/2016

**FIRST YEAR SECOND SEMESTER EXAMINATIONS FOR THE
DEGREE OF SCHOOL OF MATHEMATICS, SCHOOL OF
AGRICULTURE, SCHOOL OF BIOLOGICAL SCIENCE AND
SCHOOL OF ENVIRONMENTAL STUDIS WITH INFORMATION
TECHNOLOGY**

MAIN CAMPUS - GROUP II

AEC 102: INTRODUCTION TO MACROECONOMICS

Date: 5th May, 2016

Time: 11.00 - 1.00 pm

INSTRUCTIONS:

- Answer question ONE and any other TWO questions.
- Question ONE carries 30 marks. Other questions carry 20 marks.
- Marks will be awarded for being neat, clear and use of relevant illustrations.



QUESTION ONE

- (a) Explain the shortfalls of using income per capita in comparing the standards of living of people in different countries. (12 marks)
- (b) Explain the determinants of private investment in a country (8marks)
- (c) Draw a circular flow of national income of closed economy and highlight the injections and withdrawals and the underlying assumptions (4marks)
- (c) Explain the rationale for computing national income of a country (6marks)

QUESTION TWO

- (a) Briefly explain the determinants of consumption level in the economy and the implication of having a high level marginal propensity to consume on the growth of an economy. (10 marks)
- (b) Explain the role of central bank in the development of an economy. (10 marks)

QUESTION THREE

- (a) Explain the main reasons of holding money as was postulated by Keynes (6 marks)
- (b) Inflation is a macroeconomic variable affecting the development of many economies. Discuss and explain any two causes of inflation and suggest the remedial measures (14 marks)

QUESTION FOUR

- (a) Suppose the behavioral equations and identities for an open economy are given 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 the endogenous and exogenous variables (3marks)
- (ii) Find reduced form of equilibrium income (4marks)
- (iii) Find equilibrium value of imports (3mark)

- (b) Many economies advocate for a floated exchange rates policy, explain any three advantages and three disadvantages of this policy.

(10 marks)

QUESTION FIVE

- (a) Explain the advantages Protectionism policy in a developing economy (6marks)
- (b) Differentiate between investment multiplier and accelerator principle of investment (4 marks)
- (c) Explain the importance of international trade (10marks)