



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2015/2016

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

MAIN CAMPUS - GROUP I

AEC 102: INTRODUCTION TO MACROECONOMICS

Date: 5th May, 2016

Time: 8.30 - 10.30 am

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 methods of computing national income of a country and highlight the necessary adjustments in each case (12marks)
- (b) Succinctly differentiate between the following:
- (i) Investment multiplier and accelerator principle of investment (4marks)
 - (ii) Structural and Seasonal unemployment (4marks)
 - (iii) Fixed and Flexible exchange rates (4marks)
- (c) 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) Find reduced form of equilibrium equations (3marks)
- (ii) Find equilibrium values of exports (3marks)

QUESTION TWO

- (a) Explain the determinants of induced investment in an economy (10marks)
- (b) Briefly explain the role of money in the development of an economy (10marks)

QUESTION THREE

- (a) Explain the determinants of terms of trade and comment on Kenya's terms of trade situation (10marks)
- (b) Explain the difference between cost-push and demand-pull inflation and demonstrate each case with a diagram (10marks)

QUESTION FOUR

- (a) Discuss how the government can use both fiscal and monetary policies to reduce inflation (10marks)
- (b) Briefly explain the components of balance of payments account and the methods that the government can use to reduce balance of payment deficits (10marks)

QUESTION FIVE

- (a) Explain the justification for economic globalization (10 marks)
- (b) What are the functions of central bank? (10marks)