



**MASENO UNIVERSITY**  
**UNIVERSITY EXAMINATIONS 2015/2016**

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

**CITY CAMPUS – REGULAR & EVENING**

**AEC 102: INTRODUCTION TO MACRO ECONOMICS**

Date: 18<sup>th</sup> April, 2016

Time: 5.30 - 7.30 pm

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**INSTRUCTIONS:**

- Answer question ONE and any other TWO questions.
- Question ONE carries 30 marks. Other questions carry 20 marks.

## QUESTION ONE

- (a) Succinctly explain the shortfalls of using income per capita income comparing the standards of living of people in different countries. (14 marks)
- (b) What is the difference between gross domestic products and gross national product of a country? Which one is greater in the case of a developing economy like Kenya and Why? (5 marks)
- (c) Given a simple Keynesian model of national income ( $Y=C+I$ )  
Where:  
 $C=1000+0.8Y$   
 $I=500$   
 $\Delta I=100$
- (i) Calculate equilibrium level of income and consumption before and after change in investment level. (6 marks)
- (ii) Derive savings function (3marks)
- (iii) Calculate and interpret investment multiplier (2marks)

## QUESTION TWO

- (a) Differentiate between investment multiplier and accelerator principle of investment (6marks)
- (b) Explain the determinants of induced investment in an economy (10marks)
- (c) Given :  $C=a + bY$ , explain "a" and "b" and then sketch the consumption function (4 marks)

### QUESTION THREE

- (a) Differentiate between flows and stocks variables. Use examples. (4 marks)
- (b) (i) Explain the role of money in the development of an economy and highlight any four qualities of a good money material. (5 marks)
- (ii) How has the use of money solved the problems experienced during the barter system of trade? (5 marks)
- (iii) Explain how commercial banks create credit and the limits to credit creation. (6 marks)

### QUESTION FOUR

- (a) What are the determinants of terms of trade? Explain. (6 marks)
- (b) Explain the term "Balance of Payment" and briefly highlight its components (6 marks)
- (c) Discuss the remedial measures for balance of payment deficits in Kenya. (8 marks)

### QUESTION FIVE

- (a) Explain how 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) Discuss the relationship between unemployment and inflation rate according to Philips. (5 marks)
- (c) Briefly highlight how the government of Kenya tries to promote exports as a means of reducing budget deficits. (5 marks)