**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**P.O. Box 972-60200 – Meru-Kenya.**

**Tel: 020-2069349, 061-2309217. 064-30320 Cell phone: +254 712524293, +254 789151411**

**Fax: 064-30321**

**Website:** [**www.must.ac.ke**](http://www.must.ac.ke) **Email:** **info@must.ac.ke**

**University Examinations 2016/2017**

FIRSTYEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE, PURCHASING &SUPPLIES MANAGEMENT, BUSINESS INFORMATION TECHNOLOGY AND FOOD SCIENCE & MANAGEMENT &CO- OPERATIVE MANAGEMENT

SECOND YEAR FIRST SEMESTER BACHELOR OF PURSCHASING AND SUPLLIES

 MANAGEMENT

 **BEC 3125/BEC 3151/BEC 3225/BEC 3200: PRINCIPLES OF MACROECONOMICS**

 **DATE: DECEMBER 2016 TIME: 2HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. Assume the following information represents the national income model of an “utopian” economy

Y= C+I+G

C= a+b(Y-T)

I= d+tY

I= Io

G=Go

**Required:**

1. Explain the economic interpretation of the parameters a,b,d and t (2 marks)
2. Suppose the level of autonomous investment in an economy is 200 government expenditure is 300 and consumption is given as

C= 80 + 0.75Y

1. Find the equilibrium level of income (2 marks)
2. What will be the increased in national income if investment increased by 50%

(2 marks)

1. Briefly discuss the three motives of holding money according to the keynesion theory of money (6 marks)
2. Explain the following terms as used in macro economics
3. Gross domestic product (2 marks)
4. Public debt (2 marks)
5. Unemployment (1 mark)
6. Balance of payment (1 mark)
7. Monetary policy (1 mark)
8. Briefly discuss any four international trade theories (8 marks)
9. Using awell labeled diagram. Explain the circular flow of national income in an open economy (5 marks)

**QUESTION TWO (20 MARKS)**

1. Explain the five canons of taxation (10 marks)
2. Discuss five monetary policy instruments used by the central bank to control and regulate the amount of money in circulation (10 marks)

**QUESTION THREE (20 MARKS)**

1. The keynesion theory of employment is based on several assumptions. Briefly explain six of these assumptions (12 marks)
2. Discuss four factors that determine the exchange rate of a country (8 marks)

**QUESTION FOUR (20 MARKS)**

1. Explain the term inflation and discuss any five effects of inflation in a country

(10 marks)

1. National income per capital may not be a good indicator of the standard of living in a country. Discuss the statement (10 marks)

**QUESTION FIVE (20 MARKS)**

1. Discuss five reasons as to why most developing countries, especially in sub-Saharan Africa have not realized the full benefits from international trade (10 marks)
2. How do commercial banks and non-financial institutions contribute to economic growth and development (10 marks)