

UNIVERSITY EXAMINATIONS 2013/2014 ACADEMIC YEAR

1ST YEAR EXAMINATION FOR THE DEGREE OF BACHELOR OF

COMMERCE

COURSE CODE/TITLE: AEC 102: ELEMENTS OF MACROECONOMICS

END OF SEMESTER:II DURATION:3 HOURS

DAY/TIME: TUESDAY: 8.00 TO 11.00 A.M. DATE: 15/4/2014(LTW)

INSTRUCTIONS

Answer question **ONE** and any other **THREE** Questions.

Question One

- a) i) Discuss the differed approached used in the measurement of the National Income of a Country.
 - ii) The Economic Advisory Department of Pwani University has estimated that, the Country's marginal propensity to consume equals 0.6, Investment in millions of shilling equals 2,00, government spending 8,000, autonomous consumption 10,000 and Net exports 1,000.
 - a) Calculate the level of Equilibrium of National Income for this Economy.
 - b) In the currency of Pwani University? Depreciated, what would likely happen to the National Income? Why ?
- iii) What are the main problems associated with National income accounting in developing Countries?
- b) i) Distinguish between Cross National and Gross Domestic products and account for the lower values of the former in developing economies.
 - ii) Define the term per capita income. Show its usefulness and highlight some of its inherent short comings.

Question Two

- i) Explain the main function of money.
- ii) Discuss the reasons why people hold money.
- iii) What are the likely effects of an expansionary monetary policies in an Economy.

(5 marks)

(5 marks)

(5 marks)

(2 marks)

Question Three

- a) Recently the government has been emphasizing the concept of export-led growth. This has been well covered by the press and the media.
 - i) What is export led growth?
 - ii) Explain the impact of export-led growth on the balance of payments and terms of trade. (7 marks)
- b) What are the advantages of Kenya being a member of the International Monetary Fund.
 (6 marks)

Question Four

- i) Explain any four types of unemployment experienced in Kenya. (4 marks)
- ii) Discuss ways and means of alleviating the unemployment problem in developing Countries. (5 marks)
- iii) Outline the economic effects of a high inflation level and suggest Economic measures to curb inflation. (6 marks)

Question Five

- i) Differentiate between fiscal and monetary policies and show how the two policies are used to influence the Economy. (8 marks)
- ii) Assess the success of implementing the two policies in developing countries (7 marks)

Question Six

- i) Show graphically how IS LM curves are derived. (6 marks)
- ii) Using the IS-LM model show the effects on the equilibrium Income and the rate of interest of a change in money supply . (5 marks)
- iii) What could be the limitation of IS-LM model in a Developing Country like Kenya. (4 marks)