

MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS**

**2016/2017 ACADEMIC YEAR**

***SECOND* YEAR *FIRST* SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF SCIENCE IN AGRICULTURAL ECONOMICS & RESOURCE MANAGEMENT**

**COURSE CODE: ARE 202**

**COURSE TITLE: PRINCIPLES OF MACROECONOMICS**

**DATE: 7TH JULY 2017 TIME: 08:30 – 10:30AM**

**INSTRUCTIONS TO CANDIDATES**

Answer Question **ONE** and any other **THREE** questions

*This paper consists of* ***TWO*** *printed pages. Please turn over.*

**QUESTION ONE**

(a) Define the following macroeconomic variables: **(6marks)**

1. consumption (ii) saving (iii) Investment

(b) Consider an economy described by the following macroeconomic model:

C = 600 + 0.8Yd (Consumption function)

I = 50 (Investment)

G = 50 (Government spending)

X = 10 (Exports)

M = 5+0.1Y (Import function)

T = 50 + 0.25Y (Tax function)

Where Y = national income and Yd = disposable national income

1. Compute the equilibrium levels of output and consumption **(5 marks)**
2. Compute net export that corresponds to the equilibrium level of income **(4 marks)**
3. Compute and interpret government expenditure multiplier and tax multiplier on income **(5 marks)**
4. Suppose government expenditure decreased by 20%, what would be the change in income? **(5marks)**

**QUESTION TWO**

(a) Explain the methods which the central bank uses to controls money supply **(10marks)**

(b) Discuss Keynes’ motives for holding money **(5marks)**

**QUESTION THREE**

(a) The money market equilibrium or the LM schedule is given by:

Md = 60 + 0.1Y - 0.3r (Money demand)

Ms = 70 (Money supply)

The goods market equilibrium or the IS schedule is given by:

Y = C + I

C =125 + 0.2Y (Consumption function)

I = 50 – 0.4r (Investment)

1. Find the equilibrium function for the goods market **(5marks)**
2. Find the equilibrium function for the money market **(5marks)**
3. Determine the general equilibrium income and interest rate **(5marks)**

**QUESTION FOUR**

(a) Differentiate between cost push and demand pull inflation **(5marks)**

(b) According to A. W. Philips, what is the relationship between inflation and unemployment? **(5marks)**

(c) Explain the functions of money **(5marks)**

**QUESTION FIVE**

(a) Explain any two methods of estimating the value of output of an economy in a given period **(8marks)**

(b) Discuss problems encountered in national income accounting **(7marks)**

**//END**