

UNIVERSITY OF ELDORET EXAMINATIONS

DEPARTMENT OF ECONOMICS

2015/2016 ACADEMIC YEAR

REGULAR EXAMINATIONS

FOR THE DEGREE OF BACHELOR OF ECONOMICS

COURSE CODE: ECO 111

COURSE TITLE: INTRODUCTION TO MICROECONOMICS

TIME:3HRS

INSTRUCTIONS: Answer All questions in section A and any other TWO questions from section B

SECTION A (30 Marks)

1. Given the data on consumption function $C=a+bY$, as shown in the table, compute the following ratios

Income	Consumption	Savings	APC	APS	MPC	MPC
1000	1200					
2000	2000					
3000	2800					
4000	3600					

(5mks)

a) Average propensity to consume

b) Average propensity to save

c) Marginal propensity to consume

d) Marginal propensity to save

e) Savings

2. What are withdrawals from and injections into the circular flow of income? (5mks)

3. Explain transfer payment giving three examples?(5mks)

4. According to the liquidity preference theory what are the motives why people hold wealth as money? (5mks)

5. Distinguish between inflationary gap and deflationary gap? (5mks)

6. Explain the following different types of taxes? (5mks)

i) Regressive tax ii) Proportional tax iii) Progressive tax

SECTION B

7.(a) Explain the relationship between inflation and unemployment(10mks)

b) Explain the limitations of national income statistics for comparing countries(10mks)

8.a) Define inflation and explain the causes of inflation in Kenya.(10mks)

b) Explain the government policies for reducing inflation.(10mks)

9.a) Explain the relationship between GDP,GNP and national income (10mks)

b)How can Fiscal policy be used to achieve microeconomics objectives?(10mks)