



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

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

MAIN CAMPUS

AEC 102/BEC 121: INTRODUCTION TO MACROECONOMICS

GROUP TWO

Date: 23rd June, 2017

Time: 8.30 - 11.30am

INSTRUCTIONS:

- Answer Question ONE and any other THREE.
- Question one carries 25 marks and the rest carry 15 marks each.



QUESTION ONE.

Suppose the goods and money market condition in a given economy are described by the equation

$$C = 400 + 0.75y^d$$

$$G = 100$$

$$I = 200 - 100r$$

$$X = 10$$

$$T = 70 + 0.2y$$

$$M = 150 + 0.06y$$

$$M^s = 4000$$

$$M^d = 0.2y - 10r$$

Derive the IS and LM curve equation in order to determine the economy equilibrium income (25 Marks)

QUESTION TWO.

Using the four sector circular flows of income and expenditure model, inclusive of the capital market, explain the macro-economic contents with special attention to aggregate demand (15 Marks)

QUESTION THREE.

Supposing the marginal propensity to consume (MPC) in an economy is 0.4. if the level of investment in this economy increases by ten million shillings while holding other factors constant; calculate (15 Marks)

- a) The change in the equilibrium level of income
- b) Autonomous change in spending
- c) Induced change in consumption

QUESTION FOUR.

Kenya is currently experiencing relatively high inflation rates. Explain the effects of such inflation on (7 Marks)

- a) An employee's fixed pension

- b) A business repaying a long term fixed interest loan
- c) A family with savings in a fixed interest time deposit account

Explain the non-monetary measures that can be used to control inflation

(8 Marks)

QUESTION FIVE.

Define marginal propensity to consume

(2 Marks)

Explain how the Keynesian expenditure multiplier works

(5 Marks)

Discuss the different types of unemployment

(8 Marks)

QUESTION SIX.

a. Define National income

(1 marks)

b. Suppose consumption function and investment in a two-sector economy is given as:

$$C= 25+0.4y \text{ and}$$

$$I=25$$

Find the equilibrium level of income, consumption and savings

(4 marks)

c. Discuss the differences between the classical economies and the Keynesians on the theory of employment

(10 marks)