MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

FIRST YEAR SECOND SEMESTER EXAMINATIONS FOR THE
DEGREE OF BACHELOR OF ARTS IN COMMUNICATION AND
MEDIA TECHNOLOGY WITH INFORMATION TECHNOLOGY

CITY CAMPUS - EVENING

AEC 102: INTRODUCTION TO MACROECONOMICS

Date: 9th June, 2017   Time: 5.30 - 8.30 pm

INSTRUCTIONS:

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

Question one (Compulsory)

a) Distinguish the following terms as used in macroeconomics analysis

  i. Inflationary and Deflationary gaps

  ii. Structural unemployment and cyclical unemployment

  iii. Multiplier and Accelerator principle

  iv. Disinflation and Open inflation

  v. Gross Domestic Product and Gross National Product   (10 marks)

b) The table below represents estimated national income values for a developing economy X in millions of shillings:

Gross National Product (at market prices) =	389.2
Depreciation allowance =	47.0
Indirect taxes less subsidies =	42.4
Business taxes =	11.4
Personal income taxes =	66.3
Government transfers =	59.3
Retained profits =	13.0

Based on the information provided, calculate the Net National Product at market price, the Net National Income (at factor cost), Personal Income and the disposable income for this economy   (8 marks)

c) Explain the term per capita income showing its usefulness and highlight some of its inherent shortcomings.   (7 marks)

Question Two

a) Define the term unemployment and discuss the main causes of unemployment in developing countries   (10 marks)

b) Suggest the possible measures that you would implement to contain unemployment problems in your country   (5 marks)

Question Three

a) You are given the following information about the commodity and Money markets of a closed economy without government intervention.

The commodity market
Consumption function: $C = 100 + 0.3Y$
Investment function: $I = 2000 - 2.1r$

The Money Market
Demand for Money
Precautionary and Transactions demand for money: $M_{DT} = 0.2\,Y$
Speculative demand for money: $M_{DS} = 10 - 2r$

Money supply; $M_S = 1500$

Required:
i. Derive the IS curve
ii. Derive the LM curve.
iii. Derive the equilibrium level of income and rate of interest
iv. If the money supply is increased by 50,what would be the effect on the equilibrium level of income and rate of interest?　　　　　(15 marks)

Question Four

a) Discuss any four objectives or goals of monetary policy as used to control and regulate money supply by the Central Banking Authorities.(8marks)

b) Explain the limitations of the successful implementation of the monetary tools in developing countries?(7 marks)

Question Five

Assume the following information represents the National Income Model of an 'Utopian' economy.

$$Y = C + I + G + X - M \quad C = a + b(Y - T)$$

$$T = d + tY \qquad\qquad I = I_0$$

$$G = G_0 \qquad\qquad X = X_0$$

$$M = m_0 + m_1 Y$$

where $a > 0, 0 < b < 1, d > 0, 0 < t < 1, m_0 > 0, 0 < m_0 < 1$

T = Taxes, I = Investment, G = Government Expenditure

i. Explain the economic interpretation of the parameters a, b, d, t, m_0 and m_1
(3 marks)

ii. Find the equilibrium values of Income, consumption and taxes
(7 marks)

iii. Calculate the Government expenditure multiplier, Investment multiplier and export multiplier
(5 marks)

Question Six

i. Discuss the factors that determine the level of investment in most developing countries in Africa
(6 marks)

ii. Discuss the effects of inflation on the functioning of money (5 marks)

iii. Differentiate between fiscal and Monetary Policy.
(4 marks)