

**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

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**University Examinations 2014/2015**

FIRST YEAR, SECOND SEMESTER EXAMINATION FOR DIPLOMA IN BUSINESS AD MINISTRATION

**BED 2151: INTRODUCTION TO MACROECONOMICS**

**DATE: APRIL 2015 TIME:** $1½ $**HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. The following data represents a country’s national income: Y = C + I+G where C = a + by, a = 320B, b = 0.4, I= 750B and G = 480B.

Calculate:

1. The national income at equilibrium (3Marks)
2. Consumption at equilibrium (2 Marks)
3. Explain four main functions of the central banks. (8 Marks)
4. Explain, using a diagram, the concepts of flow of income and expenditure in a two-sector economy. (5 Marks)
5. Distinguish between the following terms;
6. Gross domestic product and gross national product (4 Marks)
7. Fiscal and monetary policy (4 Marks)
8. Multiplier and accelerator principle (4 Marks)

**QUESTION TWO (20 MARKS**)

1. Discuss five main factors that affect the aggregate consumption in an economy. (10 Marks)
2. Discuss the importance of international trade to an economy. (10 Marks)

**QUESTION THREE (20 MARKS)**

1. Define liquidity preference and explain the three motives of liquidity preference. (10 Marks)
2. Define inflation and discuss four main causes of inflation in Kenya. (10 Marks)

**QUESTION FOUR (20 MARKS)**

1. Explain any five difficulties experienced when measuring national income. (10 Marks)
2. Discuss five main tools of monetary policy. (10 Marks)

**QUESTION FIVE (20 MARKS)**

1. Discuss five main reasons why taxation is important to a country. (10 Marks)
2. State and explain any five functions of commercial banks in an economy. (10 Marks)