

KENYA METHODIST UNIVERSITY

**END OF 1STTRIMESTER 2019 (FT) EXAMINATION**

**SCHOOL : BUSINESS AND ECONOMICS**

**DEPARTMENT : BUSINESS ADMINISTRATION**

**UNIT CODE : ECON 102**

**UNIT TITLE : PRINCIPLES OF MACRO-ECONOMICS**

**TIME : 2 HOURS**

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**INSTRUCTIONS**

* ***Answer Question One and any other Two Questions***

**Question 1 [One]**

a) Distinguish between the following concepts

1. Average propensity to consume and Marginal propensity to consume
2. Macroeconomic and microeconomic
3. Inflationary and deflationary gap
4. Multiplier and accelerator
5. Ratchet effect and money illusion

[10 Marks]

b) The following set of equations describe the economy of country P



**Required**

1. Compute the equilibrium National income and imports for the country P
2. Obtain the trade balance
3. Compute the tax multiplier and government policy multiplier
4. Based on your results for (iii) above, what policy, between increasing government expenditure and tax cut, will be effective in increasing the country’s National income? Give reasons

[16 Marks]

c) Briefly explain the costs of unemployment to an economy.

[4 Marks]

**Question 2 [Two]**

a) Explain five functions of central Bank of Kenya.

[5 Marks]

b) Define inflation and discuss four monetary tools that the government can use to control an inflation problem.

[11 Marks]

c) Four functions of money.

[4 Marks]

**Question 3 [Three]**

a) Discuss five types of unemployment observed in Kenya over the past decade.

[10 Marks]

b) What are the possible solutions to these unemployment types in Kenya?

[10 Marks]

**Question 4 [Four]**

a) Explain four limitations of using per capita income in measuring social welfare.

[12 Marks]

b) Explain the main causes of balance of payment problems in Less Developed countries.   
State three solutions to this problem.

[8 Mark]

**Question 5 [Five]**

a) Suppose a consumption function of a two-sector economy is given as C = 200 + 0.8Y and   
I = 100.

i) Find the equilibrium level of income, consumption and saving.

[3 Marks]

ii) Determine the investment multiplier.

[3 Marks]

b) Discuss the importance of the multiplier in economics.

[4 Marks]

c) Explain the difference between demand pull inflation and cost push inflation.

[6 Marks]

d) Explain the reasons for holding money according to Keynes.

[4 Marks]