



**MASENO UNIVERSITY**  
**UNIVERSITY EXAMINATIONS 2018/2019**

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

**MAIN CAMPUS**  
**(ONE SIT-IN FOR ALL THE GROUPS)**

**BEC 122: INTRODUCTION TO MACRO-ECONOMICS**

Date: 16<sup>th</sup> April, 2019

Time: 8.30 - 11.30 am

**INSTRUCTIONS:**

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



### QUESTION ONE

- a. Differentiate between Microeconomics and Macroeconomics. [5 Marks]
- b. Explain the economic problems of Macroeconomics. [5 Marks]
- (c) Highlight the relationship between Marginal propensity to consume (MPC) and Marginal propensity to save (MPS). [5 Marks]
- c. Explain the relationship between Marginal efficiency of capital (m.e.c) and the interest rate. [5 Marks]
- d. Explain the Keynesian view of Liquidity Preference (L.P). [5 Marks]

### QUESTION TWO

- a. Explain the Keynesian psychological Law of Consumption. [5 Marks]
- b. How is the law in (a) above important to the determination of income and employment in the economy. [5 Marks]
- c. Give five measures to raise the propensity to consume. [5 Marks]

### QUESTION THREE

- a. Given the saving function  $S = -10 + 0.2 Y$  and autonomous investment  $I = \$ 50$ , find the level of consumption. [5 Marks]
- b. Explain and illustrate diagrammatically the concept of multiplier. [10 Marks]

$S + I = Z$   
 $0.2 - 0.2$   
 $Y = \frac{r + 10}{0.2}$   
 $J = \frac{1}{1 - 0.2}$

### QUESTION FOUR

- a. Explain how the Keynesian demand for money is a departure from the 19<sup>th</sup>. C classical theory. [9 Marks]
- b. Explain why demand for money is considered to be declining function of rate of interest. [6 Marks]

### QUESTION FIVE

- a. Distinguish between inflation and Deflation. [5 Marks]
- b. How did Keynes explain the phenomenon of inflation in terms of his concept of inflationary gap? [10 Marks]

### QUESTION SIX

- a. Discuss the concept of full-employment. [5 Marks]
- b. Explain the following types of the unemployment:
- i. (i) Frictional Unemployment [2 Marks]
  - ii. (ii) Structural Unemployment [2 Marks]
  - iii. (iii) Cyclical Unemployment [2 Marks]
- c. How is monetary policy helpful in generating employment opportunities in the economy. [6 Marks]