



**MAASAI**

**MARA**

**UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATIONS  
2020/2021 ACADEMIC YEAR  
FIRST YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS  
BACHELOR OF SCIENCE IN ECONOMICS**

**COURSE CODE: ECO 1203-1**

**COURSE TITLE: INTRODUCTION TO MACROECONOMICS**

**DATE: 4<sup>TH</sup> OCTOBER, 2021**

**TIME: 1100 – 1300HRS**

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**INSTRUCTIONS TO CANDIDATES**

Answer Question **ONE** and any other **TWO** questions

*This paper consists of **three** printed pages. Please turn over.*

### **QUESTION ONE**

- a) Discuss the different approaches used in the measurement of the national income of a country **(4marks)**
- b) Describe how contractionary monetary policy and fiscal policy measures could be used to combat inflation **(4 marks)**
- c) Distinguish between endogenous and exogenous variables **(2 marks)**
- d) Given the model  $C = a_0 + cY^d + I + G$ ; Identify the endogenous and exogenous variables **(2 marks)**
- e) The Economic Advisory Department of Kenya has estimated that its country's marginal propensity to consume equals 0.6, investment in millions of shillings equals 2,000, government spending 8,000, autonomous consumption 10,000 and net exports 1,000
- (i) Calculate the level of equilibrium of national income for the country **(4 marks)**
- (ii) If the currency of Kenya depreciated, what would likely happen to the national income and why **(4 marks)**

### **QUESTION TWO**

Given the following information;

$$C = 10 + 0.8Y$$

$$I = 20 - 1000R$$

$$L = Y - 1000R$$

$$G = 55$$

$$T = 50$$

$$M = 90$$

- a. Derive the IS and LM functions **(8 marks)**

- b. Calculate the equilibrium values of National Income and the market rate of interest **(7 marks)**

### **QUESTION THREE**

- i. Country Y's economic growth rate was 1.2% in the year 2020. The welfare of the citizens was therefore 1.2% better than in the year 2019. Discuss this statement citing why you agree/ disagree with it **(10marks)**
- ii. Discuss the main causes of unemployment and suggest possible measures that you would implement to contain it. **(5marks)**

### **QUESTION FOUR**

Given the following information about hypothetical economy

$$C = 500 + 0.75Y^d$$

$$I = 400$$

$$G = 700$$

$$T = 300$$

Where,

C= Consumption

I= Investment

G= Government spending

Y= Real income

T= Taxes

- (i) Calculate equilibrium level of output and consumption **(5 marks)**
- (ii) If government spending is cut by 200/=-, what would be the change in consumption and income **(5 marks)**
- (iii) Define the term “deflationary gap” and suggest policy measures that could be adopted to curb it in an economy. **(5 marks)**

**END//**