MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS
2022/2023 ACADEMIC YEAR
FIRST YEAR SECOND SEMESTER

SCHOOL OF BUSINESS AND ECONOMICS
BACHELOR OF SCIENCE-ECONOMICS,

COURSE CODE: ECO 1203-1

COURSE TITLE: INTRODUCTION TO MACROECONOMICS

DATE: 18/4/2023 **TIME: 1100-1300 HRS**

INSTRUCTIONS TO CANDIDATES

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

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

QUESTION ONE

a) The Economic Advisory Department of Kenya has estimated that its country's marginal propensity to consume equals 0.6, investment is sh. 2,000, government spending sh. 6,000, autonomous consumption sh.10,000 and net exports sh. 1,000 (values in million of shillings)

(i) Calculate the level of equilibrium of national income for the country **(4 marks)**

(ii) If the currency of a country depreciated, what would likely happen to the national income and why? **(4 marks)**

b) Discuss the various approaches used in the measurement of the national income of a country **(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) Briefly explain the concept of Phillips curve **(4 marks)**

QUESTION TWO

a) Country Y's economic growth rate was 1.2% in the year 2020. The welfare of the citizens was therefore1.2% better than in the year 2019. Critique this statement citing why you agree/ disagree with it **(8 marks)**

b) Discuss the main causes of unemployment and suggest possible measures that you would implement to contain it. **(7 marks**

QUESTION THREE

Given the following information about hypothetical economy

$C = 500 + 0.65Y^d$

$I = 400$

$G = 700$

$T = 200$

(i) Calculate equilibrium level of output and consumption **(5 marks)**

(ii) If government spending is cut by 150/=, 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)**

QUESTION FOUR

(a) The commodity and money markets of a given economy are presented hypothetically as follows;

$Y = C + I$ (national income function)

$C = 100 + 0.3Y$ (consumption function)

$I = 2000 – 2.1r$ (investment function)

$L_t = 0.2Y$ (transaction demand for money function)

$L_s = 10 – 2r$ (speculative demand for money function)

$M_s = 2000$ (money supply)

I. Derive the IS curve **(4 marks)**

II. Derive the LM curve **(3 marks)**

III. Derive the equilibrium level of income and rate of interest **(4 marks)**

(b) Discuss unemployment demand management macroeconomic policies. **(4 marks)**

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