MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATION
2017/2018 ACADEMIC YEAR
SECOND YEAR SECOND SEMESTER

SCHOOL OF BUSINESS AND ECONOMICS
BACHELORS OF SCIENCE IN ECONOMICS, ECONOMICS AND STATISTICS, FINANCIAL ECONOMICS

COURSE CODE: ECO 1203

COURSE TITLE: INTRODUCTION TO MACROECONOMICS

DATE: 2ND MAY, 2018 **TIME: 1430 - 1630 HRS**

INSTRUCTIONS TO CANDIDATES:

Answer questions ONE and any other three.

QUESTION ONE

a) Define the following terms as used in macroeconomics:

i. Personal Income. **(1 mark)**

ii. Cost-Push **(1 mark)**

iii. Exchange rate **(1 mark)**

iv) Balance of payments **(1 mark)**

v) Macroeconomic Policy **(1 mark)**

b) The following statistics are derived from a hypothetical economy. The figures are in millions of Kenya Shillings.

Gross national product	-	15,000
Net income from abroad	-	600
Depreciation	-	3,000
Indirect Business taxes	-	2,000
Social Security Contribution	-	1,000
Corporate income taxes	-	1,700
Undistributed profits	-	300
Transfer Payments	-	2,000
Population	-	200
Direct personal taxes	-	2,000

Required:

(i) Net National product at market prices **(2 marks)**

(ii) National income **(2 marks)**

(iii) Personal income **(2 marks)**

(iv) Disposable Income **(2 marks)**

(v) Per capita Income **(2 marks)**

c) With aid of a diagram distinguish between inflationary gap and deflationary gap **(5marks)**

d) Highlight seven properties of good money **(7 marks)**

QUESTION TWO

a) Discuss five reasons why National Income Per-Capita is a misleading indicator of comparison of the standard of living or well-being between two countries. **(10 Marks)**

b) State and discuss the three Keynesian motives of holding money balances. **(5 marks)**

QUESTION THREE

a) Explain with the help of a diagram a circular flow of income diagram for the Kenyan economy with five agents–consumers, firms, the government and Uganda. **(8marks)**

b) Discuss the four hypotheses concerning the way income influences consumer spending. **(7marks**)

QUESTION FOUR

a) The good and money markets of a given economy are presented below:

Good market

Y = C+I

C= 204+0.7Y (Consumption function)

I=300-200r (Investment function)

Money Market

Ms = 600 (money supply)

M_{DT} = 0.5Y (transaction demand for money function)

M_{DS} = 248 – 400r (Speculative demand for money function)

Required:

i. Derive the IS equation **(2 marks)**

ii. Derive the LM equation **(2 marks)**

iii. Derive the equilibrium level of income and rate of interest **(6 marks)**

b) How do commercial banks "create credit"?

c) Highlight four factors that limits the credit creation by commercial banks

QUESTION FIVE

a) Explain, with the help of a diagram, the meaning of paradox of thrift. (4 marks)

b) Suppose for a particular economy

I = 25 (Investment)

G = 50 (Government Spending)

T= 0.25Y (Tax function)

$C = 25 + \frac{2}{3}Y^d$ (Consumption function)

Required:

i. Compute equilibrium T, C, Y and S (savings) **(5 marks)**

ii. Calculate and interpret the government expenditure multiplier **(4 marks)**

iii. Compute the budget surplus/deficit **(2 marks)**

END//