



# **MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATIONS**

**2022/2023 ACADEMIC YEAR**

**FIRST YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**MSC-ECONOMICS**

**COURSE CODE: ECO 8102**

**COURSE TITLE: MACROECONOMICS I**

**DATE: 1/2/2023**

**TIME: 1430HRS-1730HRS**

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**INSTRUCTIONS TO CANDIDATES**

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

## QUESTION ONE

- a) A review of the basic macroeconomic conditions of a given economy entails studies of an economic phenomenon under both static and dynamic conditions. In this respect, explain the difference between:
- i) The concepts of economic statics and dynamics. **(5 marks)**
  - ii) Static analysis and comparative static analysis. **(5 marks)**
- b) Say's law states that "*supply creates its own demand*". This theory was regarded as the foundation of macroeconomics by the classical school of economic thought. Explain the logic behind Say's law in the context of both a barter and a monetized economy. **(10 marks)**

## QUESTION TWO

In Agriculturally based economies such as Kenya, Marginal Propensity to Consume (MPC) is more than that of industrialized countries such as the USA. An economic interpretation of the state of affairs implies that a given investment will add more income to the total output of the Kenyan economy than in the USA. But this is generally not the case. Why? **(20 marks)**

## QUESTION THREE

- a) Describe what is meant by a macroeconomic model and elaborate on the two kinds of variables used in explaining real-world conditions. **(8 marks)**
- b) An economy has a growth model equilibrium at  $Y = C + I + T + G + Gr + (X - M)$   
Where,  
 $C = 50 + b(Y - 50 - T_y + Gr)$ ,  $I = 100$ ,  $G = 50$ ,  $Gr = 25$  (transfer payments),  
 $X = 10$ ,  $M = 5 + 0.1Y$ ,  $b = 0.8$ , and  $t = 0.25$
- i) Find the national income at the equilibrium. **(4 Marks)**

- ii) Find foreign trade multiplier.  
**(4 marks)**
- iii) How much additional government expenditure will be required to increase the equilibrium level of national income by Kshs 50 trillion?  
**(4 marks)**

#### **QUESTION FOUR**

- a) Keynesians hold that, during a period of recession, unemployed persons are involuntarily unemployed. New classical macroeconomists claim that there is nothing like involuntary unemployment. What is the basis of this claim?  
**(10 marks)**
- b) During the Keynesian revolution era, most countries had adopted a taxation policy aimed at raising revenue for public investment but, neither the policy-makers nor the economists were sure about the relationship between tax rates and tax revenue. Explain the relationship and its policy implications using the Laffer curve.  
**(10 marks)**

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