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(University of Choice)

**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

MAIN EXAMINATION

**UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR**

FIRST YEAR SECOND SEMESTER EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF SCIENCE IN ECONOMICS**

COURSE CODE: ECO 102

COURSE TITLE: INTRODUCTION TO MICROECONOMICS

DATE: Wednesday, 27-04-2022

TIME: 15:00-17:00

INSTRUCTIONS TO CANDIDATES

ATTEMPT QUESTION ONE AND ANY OTHER TWO

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over.

QUESTION ONE

- a) With the use of practical examples from a transitioning economy, differentiate between the following paired concepts:
- Structural and cyclical unemployment
 - Aggregate expenditure and aggregate investment
 - The spending multiplier and consumer price index (6 marks)

b) With the use of a clear diagram, explain the economic applications of the Phillips curve to development policy: (9 marks)

c). Precisely define “money” and explain its distinguishing features (5 marks)

d) Explain Irving Fisher’s Quantity Theory of money and its present criticisms that have been labeled against it. (10 marks)

QUESTION TWO

- a) Given the following statistical data from a developing country for 4 years (US\$ billions)

GDP	CONSUMPTION AGGREGATE EXPENDITURE	SAVINGS	INVESTMENTS
480	485		30
490	490		30
500	470		30
530	480		30
540	490		30

Required:

- Derive the values for savings and aggregate expenditure (AE) (10 marks)
 - Present the data on a well-labelled, diagram, indicating the equilibrium GDP of the economy (4 marks)
- b) Using clear illustrations, describe two key factors that can influence a shift in the investment demand curve of an economy. (6 marks)

QUESTION THREE

- a. With the use of practical examples, describe the key household and industry motives for holding money. (7 marks)

b. Describe and illustrate the money market equilibrium of an economy and identify, using clear diagrams, three factors that can influence a shift in the money demand curve of a developing economy: (6 marks)

c).For what reasons does the government obtain national income statistics? (7 marks)

QUESTION FOUR

a. Explain, the key components of a country's balance of payment current account, showing how the balance of payment is derived (8 marks)

b. Describe the factors contributing to a deficit in external trade balances of a developing country and suggest ways in which it can be corrected. (12 marks)

QUESTION FIVE

a. As a Policy Consultant in a Sub-Saharan economy explain how the inflation and public debt can be resolved using fiscal and monetary policy: (14 marks)

b. The accelerator model is expressed as:

$$\alpha = \frac{k_t}{Y_t}$$

Highlight the economic applications of this model to development policy (6 marks)

