



(University of Choice)

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

MAIN EXAMINATION

**UNIVERSITY EXAMINATIONS
2022/2023 ACADEMIC YEAR**

FIRST YEAR FIRST SEMESTER EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF SCIENCE IN ECONOMICS/ BACHELOR OF
MATHEMATICS AND ECONOMICS**

COURSE CODE: ECO 102

COURSE TITLE: INTRODUCTION TO MACROECONOMICS

DATE: WEDNESDAY-14-12-2022

TIME: 3:00 -5:00

INSTRUCTIONS TO CANDIDATES

ATTEMPT QUESTION **ONE** AND ANY OTHER **TWO**

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 2 Printed Pages. Please Turn Over.

QUESTION ONE

a) With the use of practical examples from a transitioning economy, differentiate between the following paired concepts:

- i. Keynesian and Lifecycle consumption theory
- ii. Structural and cyclical unemployment
- iii. The spending multiplier and consumer price index (10 marks)

b) With the use of clear diagrams, explain the economic application of the following concepts to development policy:

- i. Circular flow of income
- ii. Phillips curve
- iii. Money supply function
- iv. Backward labor supply curve (20 marks)

QUESTION TWO

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

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

Required:

- i. Derive the values for savings and aggregate expenditure (AE) (10 marks)
 - ii. 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. (6 marks)

b. Explain, using clear diagrams, the impact of the following indicators on the money demand curve of a developing economy:

- i. Appreciation in real interest rates

- ii. Increased domestic inflation
- iii. Increase in national income
- iv. Political insecurity

(14 marks)

QUESTION FOUR

- a. Explain, the key components of a country's balance of payment current account, how the balance of payment is derived (8 marks)
- b. Describe the factors contributing to a dis-equilibrium 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 following macro-economic problems can be resolved using fiscal and monetary policy:
 - i. Inflation
 - ii. Government deficits
 - iii. Disguised unemployment

(15 marks)

- b. The accelerator model is expressed as:

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

Highlight the economic applications of this model to development policy (5 marks)

