(*University of Choice*)

MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY (MMUST)

MAIN

UNIVERSITY EXAMINATIONS 2023/2024 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER EXAMINATIONS

FOR BEC, BES, BAC, EDA, BCM

COURSE CODE: ECO 112/ECO 101

COURSE TITLE: INTRODUCTIO TO MICROECONOMICS

DATE: FRIDAY 19th April 2024 **TIME:** 8:00 -10:00

INSTRUCTIONS TO CANDIDATES

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

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

Question 1.

a) 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. Lifecycle consumption theory (18 marks)

b) Describe the investment demand curve, using a clear diagram and mention the key factors influencing investment by firms in a developing economy. (6 marks)

c) Mention appropriate policies to reduce structural unemployment in Kenya (6 marks)

Question 2.

a) Given the following data from a developing country for 5 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 (5 marks)

b) Describe the economic implications of the accelerator model to a transitioning economy (5 marks)

Question 3

a. With the use of practical examples, describe the key household and industry motives for holding money. (6 marks)

b) Present a diagram showing the money market equilibrium of a developing economy. Describe and illustrate the key macroeconomic factors influencing a change in the money demand curve of this economy. (14 marks)

Question 4

a. Construct a simple balance of payments account of a developing economy and explain how the balance of payment is derived. (8 marks)

b. As a Sub-Saharan Economist, describe the factors contributing to a deficit in the balance of payments and suggest appropriate measures to correct it. (12 marks)

Question 5

a. As a Policy Consultant in a developing economy, explain how inflation can be corrected using fiscal and monetary policy: (10 marks)

b. The consumption function is written as:
$C = a + 0.75\ Y$.
Find the spending multiplier and discuss its economic application to development policy in a transitioning economy (10 marks)