



MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS
2018/2019 ACADEMIC YEAR
FIRST YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS AND
ECONOMICS**

**BACHELOR OF SCIENCE ECONOMICS
BACHELOR OF SCIENCE FINANCIAL ECONOMICS
BACHELOR OF SCIENCE ECONOMICS & STATISTICS
BACHELOR OF SCIENCE IN AGRICULTURAL &
RESOURCE ECONOMICS**

**COURSE CODE: ECO 1203
COURSE TITLE: INTRODUCTION TO
MACROECONOMI
CS**

**DATE: 18TH APRIL, 2019
1300HRS**

TIME: 1100 -

INSTRUCTIONS TO CANDIDATES

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

*This paper consists of **three** printed pages. Please turn over.*

QUESTION ONE

(a) (i) What is Macroeconomics? How is it different from Microeconomics?

(3 marks)

(ii) What are the four uses and three limitations of national income?

(7 marks)

(b) (i) Distinguish between endogenous and exogenous variables.

(3 marks)

(ii) Given the model:

$$C = a_0 + cY^d + I + G$$

Identify the endogenous and exogenous variables. **(4 marks)**

c) The following information was obtained from a hypothetical economy;

$$C = 30 + 0.8Y$$

$$I_0 = 20$$

(i) Compute the level of national income at equilibrium.

(4 marks)

(ii) Determine the investment multiplier and interpret it.

(4 marks)

QUESTION TWO

Country Y's economic growth rate was 1.2% in the year 2010. The welfare of the citizens was, therefore, 1.2% better in 2010 than in the year 2009. Comment critically on this statement.

(15 marks)

QUESTION THREE

Given the following information about a hypothetical economy;

$$C = 500 + 0.75Y^d$$

$$I = 400$$

$$G = 700$$

$$T = 300$$

Where,

C = Consumption

I = Investment

G = Government spending

Y = Real income

T = Taxes

- (i) Calculate equilibrium level of output and consumption
(5 marks)
- (ii) If government spending is cut by 200/=-, what would be the change in consumption and income
(5 marks)
- (iii) What is the size of government expenditure multiplier?
(5 marks)

QUESTION FOUR

Given;

$$C = 10 + 0.8Y$$

$$I = 20 - 1000R$$

$$L = Y - 1000R$$

$$G = 55$$

$$T = 50$$

$$M = 90$$

- a. Derive the IS and LM functions. **(8 marks)**
- b. Calculate the equilibrium values of national income and the market rate of interest
(7 marks)

QUESTION FIVE

(a) Discuss five different types of unemployment and suggest various measures to reduce unemployment.

(8 marks)

(b) Define inflation and describe various fiscal and monetary policies a government may employ to control inflation .

(7 marks)

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