



MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS
2017/2018 ACADEMIC YEAR
FIRST YEAR SECOND SEMESTER

SCHOOL OF PURE SCIENCES
BACHELOR OF SCIENCE IN STATISTICS AND
MATHEMATICS

COURSE CODE: STA 1211

COURSE TITLE: PRINCIPLES OF ECONOMICS II

DATE: APRIL 2018

TIME: 2 HRS

INSTRUCTIONS TO CANDIDATES

1. Answer Question ONE and may any other THREE questions
2. Question ONE carries 30 marks
3. Involvement in exam cheating will lead to discontinuation

This paper consists of 4 printed pages. Please turn over.

QUESTION ONE

(a) The demand and supply curves for television sets in the supermarket are given by the following functions

$$\text{Demand } 0.04=400-Q$$

$$\text{Supply } 0.06=Q+500$$

Where p and q are prices in shillings and quantity in units respectively

Calculate the equilibrium price and quantity of television sets (3marks)

(b) Discuss the applications of indifference curve analysis (3marks)

(c) Distinguish between the short run and long run production function (2marks)

d) The structural model of Jamhuri economy is given below

$$C=500+0.7Y^d$$

$$I=270$$

$$G=450$$

$$T=200$$

REQUIRED

i) Derive the savings function (1 marks)

ii) Derive the government expenditure multiplier and explain your answer. (1 marks)

iii) Compute the equilibrium income (Y) and consumption (C). (1 marks)

e) Briefly examine the four goals of macroeconomic policy. (4 marks)

f) Define the following terms (6 marks)

i) Ratchet effect

ii) Liquidity Trap

iii) Money illusion

g) Explain FIVE factors that influence size of a country's national economy. (5 marks)

h) Clearly explain Five types of unemployment. (4 marks)

QUESTION TWO

a) Using a well labeled flow diagram discuss the injections and withdrawals in the economy's income. (10 marks)

b) Explain the factors that determine investments in a country. (10 marks)

QUESTION THREE

a) What is a production possibility frontier (10 marks)

b) Describe the Keynesian theory of money demand highlighting the factors that determine money demand in the economy. (10 marks)

QUESTION FOUR

a) With the aid of a well labeled diagram, describe the life cycle income hypothesis of consumption behavior. (10 marks)

b) Describe FIVE desirable properties of money as a medium of exchange. (5marks)

c) Examine the limitations of per capita income in measuring social welfare. (5 marks)

QUESTION FIVE

a) Examine the measures the government of Kenya can use to curb inflation using examples. (10marks)

b) With the aid of well labeled diagrams show the difference between the following

i) Demand pull inflation (5 marks)

ii) Cost push inflation (5 marks)