SOUTH EASTERN KENYA UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

XET 102: INTRODUCTION TO MACROECONOMICS

DATE: 6ᵀᴴ DECEMBER, 2016   **TIME: 10.30-12.30PM**

Instructions to Candidates

a) Answer Question **ONE** and any other **TWO** questions.
b) Begin answering a new question on a separate page on the booklet provided
c) Credit will be given to the clarity of argument and use of local examples.

QUESTION ONE (30 Marks)

a) Highlight five limitations of Macroeconomic Analysis to the study of economics.

(5 marks)

b) The Kenya National Bureau of Statistics has made the following estimates for the Kenyan economy;-

      MPC = 0.25
      I = 5500
      G = 12000

Autonomous consumption (α) = 1500

Net Exports (X-M) = 3500

      Y= C+ I + G + X-M

      C= $\alpha + \beta Y$

Required;-

  i.   Calculate the equilibrium level of National Income.   (3 marks)
  ii.   Calculate the consumption and the savings function.   (4 marks)
 iii.   Define and compute the investment multiplier.   (3 marks)

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c) Explain clearly five functions of Central Bank of Kenya. (5 marks)

d) Distinguish between economic growth and economic development (4 marks)

e) Highlight **four** challenges faced by economists in using national income statistics in comparing the economic welfare of citizens between two countries. (6 marks)

QUESTION TWO (20 Marks)
a) Using a well labeled diagram, explain the four phases of a trade/business cycle. (8 marks)

b) Explain the meaning of following terms;- (3 Marks each)
   i. Fiscal policy (3 Marks each)
   ii. Gross National product (3 Marks each)
   iii. Marginal Propensity to Save (3 Marks each)
   iv. The Philips curve (3 Marks each)

QUESTION THREE (20 Marks)

a) Explain five instruments of monetary policy that can be used to solve Kenya's various economic problems. (10 marks)

b) Using examples, describe the three methods used in national income accounting for the Kenyan economy (10 Marks)

QUESTION FOUR (20 Marks)

a) Explain four the causes of cost-push inflation. (4 marks)

b) Argue the case for and against trade protection (6 marks)

c) Explain **five** solutions to disequilibrium in the balance of payments of a country. (10 Marks)

QUESTION FIVE (20 Marks)

a) Using Keynesian theory, briefly explain why people hold money (6 marks)

b) Explain five factors that limit credit creation by commercial banks (5 marks)

c) Using a well labeled diagram, explain the Keynesian model of determining the equilibrium level national income. (9 marks)