KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF ECONOMICS, BACHELOR OF EDUCATION AND BACHELOR OF EDUCATION

EET 101: MACROECONOMIC THEORY I

DATE: WEDNESDAY 7TH FEBRUARY 2018 **TIME: 4.30 P.M. - 6.30 P.M.**

INSTRUCTIONS:

1) **Question ONE is compulsory**
2) **Answer any other TWO Questions**

QUESTION ONE

a) Explain the differences in the following terms as used in macroeconomics. (10 marks)

i. Induced and Autonomous investment.

ii. Personal income and disposable income

iii. Leakages and withdrawals

iv. Disguise and temporary unemployment

v. Monetary policy and fiscal policy

b) Suppose the economy is characterized by the following behavioral equation:-

$Y = C + I + G + (X-M)$	Equilibrium condition
$C = 2000 + 0.75Y_d$	Consumption equation
$I = 4000$	Investment expenditure
$G = 4100$	Government Expenditure
$X = 2800$	Export
$M = 400 + 0.25Y$	Import equation
$T = 100 + 0.3Y$	Tax equation

Y_d = disposable Income

Required:

i. Compute equilibrium national income and Imports for the economy. (3 marks)

ii. Differentiate between the closed-economy model and the open economy model (use either graphically or mathematical relationships where appropriate. (3 marks)

iii. Derive Balance of Payment (BP) curve and explain why it slopes upwards (4 marks)

c) Discuss briefly five factors that influence the level of investment in an economy. (10 marks)

QUESTION TWO

a) Discuss four measures that can be instituted to correct a balance of payments deficit in developing countries. (8 marks)

b) Discuss briefly the following theories of consumption. (12 marks)

i. Life cycle Income hypothesis

ii. Permanent Income Hypothesis

QUESTION THREE

a) Outline the difficulties encountered in measuring national income. (6 marks)

b) The table blow shows recent population and labour force data for a country X.

Total population (millions)	22 300 000
Civilian population (over 18 years)	18 099 700
Labour force	11 819 500
Employed persons	11 212 300

Based on the information above, calculate the unemployment rate and the participation rate. (4 marks)

c) The current unemployment rate in Kenya is very high. This could be attributed to various factors. As an economist, explain the five measures that can be implemented to curb unemployment. (10 marks)

QUESTION FOUR

a) Discuss any five factors that contribute to economic growth in developing countries. (10 marks)

b) Enumerate six reasons why per capita income is not a good measure material well-being of people in a country. (6 marks)

c) Explain any two limitations to the study of macroeconomics. (4 marks)

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