



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

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MAY – AUGUST 2021

Ext 1022/23/25

FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

REGULAR PROGRAMME

ECN 205: PRICIPLES OF MACROECONOMICS

Date: AUGUST 2021

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any other TWO Questions

Q1.

- (a) Explain the 5 Macroeconomic goals/objectives of a country. **(5 Marks)**
- (b) What are the main propositions of the Keynesian theory of national income and employment. **(10 Marks)**
- (c) Use a numerical example to illustrate the Balanced-Budget Multiplier. **(10 Marks)**
- (d) Illustrate the importance of Investment (I) in an open economy. **(5 Marks)**

Q2.

- (a) Outline the 'Life-Cycle Hypothesis' theory of consumption. **(10 Marks)**
- (b) Outline the determinants of Household Saving Ratio in an open economy. **(10 Marks)**

Q3.

- (a) Give the propositions of the Relative Income Hypothesis theory of consumption. **(10 Marks)**
- (b) The consumption function of an economy is defined by: $C = 15 + 0.6Y_d$.
 - i. Derive the saving function for the economy and explain why $MPC + MPS = 1$. **(5 Marks)**
 - ii. Graphically illustrate the two functions for a range of disposable income of KES 0 to KES 300 million. **(5 Marks)**

Q4.

- (a) Explain 5 Aggregate Demand management techniques that government uses in an open economy. **(10 Marks)**
- (b) Explain why the 'Great Depression' of the 1930s was more a political rather than an economic issue. **(10 Marks)**

Q5.

- (a) Explain and illustrate the following concepts:
- i. The Ratchet Effect. **(5 Marks)**
 - ii. The GDP Deflator. **(5 Marks)**
 - iii. The IS-LM Model. **(10 Marks)**

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