



# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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**MAIN EXAMINATION**

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**MAY- AUGUST 2021**

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**SCHOOL OF BUSINESS**

Fax: 254-20-891084

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**REGULAR/ODEL PROGRAMME**

**CED 072: PRINCIPLES OF MACRO ECONOMICS**

**Date: AUGUST 2021**

**Duration: 2 Hours**

**INSTRUCTIONS: Answer Question ONE and any other TWO Questions**

## QUESTION ONE

(a) Highlight the major goals of Macroeconomic policies in developing countries (04 Marks)

b) The following information relates to the commodity and money market of a hypothetical closed economy in billions of shillings.

$$Y=C+I$$

$$C=100+0.5Y$$

$$I=500-10r$$

$$MD_t=0.25Y$$

$$MD_s=300-20r$$

$$M_s=400$$

Where:

Y is the national income

C is the consumption function

I is the investment function

MDt is the transactionary and precautionary demand for money

Ms is the money supply

Required

- i. The IS function (03 Marks)
- ii. The LM function (03 Marks)
- iii. The equilibrium interest rates (02 Marks)
- iv. The equilibrium national income (02 Marks)

c) The data below represent the national income figures for a hypothetical economy in millions of shillings.

	Shs. Millions
Gross National Product (Market Price)	3992
Depreciation Allowance	570
Indirect Taxes less Subsidy	524
Business Taxes	214
Personal Income Taxes	763
Government Transfers	693
Retained Profit	230

Required

- i. Net National Product at Market Price (02 Marks)
- ii. Net National Product at Factor Cost (02 Marks)
- iii. Personal Income (02 Marks)
- iv. Disposable Income (02 Marks)

d) Explain the “credit creation” process” by commercial banks highlighting the limitations to this credit creation? (04 Marks)

e) Explain the various quality characteristics of good money in the economy. (04 Marks)

## QUESTION TWO

- d) Examine the three motives for holding money as advanced by Keynes. (06 Marks)
- b) Summarize the limitations of using national income statistics in comparing the living standards of two countries. (06 marks)
- c) Explain the remedy measures for inflation in the economy. (08 marks)

## QUESTION THREE

- a) With the aid of a well labelled diagram explain the Keynesian “liquidity trap”. (04 Marks)
- b) Highlight the reasons why unemployment is a major cause of concern in developing countries. (08 Marks)
- c) Highlight the effects of increased inflation rate in the economy (08 Marks)

## QUESTION FOUR

- a) Suggest the determinants of investments in the economy. (06 Marks)
- b) Suggest measures that can be undertaken by developing countries to curb the high level of unemployment. (08 Marks)
- c) Highlight the various causes of increased cost of living in developing countries. (08 Marks)