



# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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**MAIN EXAMINATION**

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**JANUARY – APRIL 2022**

**FACULTY OF ARTS AND SOCIAL SCIENCES**

**DEPARTMENT OF ECONOMICS**

**REGULAR PROGRAMME**

**ECN 101/ SDS 206: MACROECONOMICS THEORY**

<b>Date: APRIL 2022</b>	<b>Duration: 2 Hours</b>
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<b>INSTRUCTIONS: Answer Question ONE and any TWO Questions</b>
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Q1.

- a) Describe the limitations of macroeconomics to developing economies. . (5MARKS).
- b) Discuss the importance of macroeconomics to an economy (5MARKS).
- c) Discuss the circular flow of income with an economy with only four actors (10MARKS).
- d) Suppose that

I.  $C = 20 + 0.4Y$   $I = \text{Ksh.}500$

II.  $C = 20 + 0.6Y$   $I = \text{Ksh.}400$

III.  $C = 10 + 0.2Y$   $I = \text{Ksh.} 800$

IV.  $C = 10 + 0.8Y$   $\bar{I} = \text{Ksh.} 500$

Compute Equilibrium Income ( $\bar{Y}$ ) for each of the above equations. (10MARKS).

Q2.

- a) State and explain three determinants of consumption other than income. (10 MARKS).
- b) Suppose

I.  $Y_0 = 100$  ,  $\Delta I = 25$ ,  $MPC = \beta = 0.8$ ,

II.  $Y_0 = 200$ ,  $\Delta I = 50$ ,  $MPC = \beta = 0.6$

III.  $Y_0 = 50$  ,  $\Delta I = 15$  ,  $MPC = \beta = 0.4$ ,

Required calculate change of income and investment multiplier for each of the above  
**(10 MARKS).**

Q3.

- a) Discuss reasons why Per capita income is not a good measure of material well being of the people **(10 MARKS).**  
b) Suppose we have the following equations.

- I.  $MPC = 0.8, Y = \text{ksh.}1160$  and  $\Delta T = \text{ksh.}40$ .  
II.  $MPC = 0.6, Y = \text{ksh.}1200$  and  $\Delta T = \text{ksh.}35$   
III.  $MPC = 0.7, Y = \text{ksh.}1140$  and  $\Delta T = \text{ksh.}20$   
IV.  $MPC = 0.8, Y = \text{ksh.}1400$  and  $\Delta T = \text{ksh.}30$

Compute the change in income for each of the above Equations **(10 MARKS)**

Q4.

- a) Explain briefly the major goals of macroeconomic policy. **(10MARKS).**  
b) Examine the main approaches to measurement of National income. **(10MARKS).**

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