



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

P.O. Box 62157

00200 Nairobi - KENYA

Telephone: 891601-6

Ext 1022/23/25

MAIN EXAMINATION

JANUARY – APRIL 2022

FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

REGULAR PROGRAMME

**ECO 122 / CEC 121/ACS 302: MACROECONOMIC THEORY I / INTRODUCTION TO
MACROECONOMICS/PRINCIPLES OF MACROECONOMICS**

Date: APRIL 2022

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any TWO Questions

Q1.

- a. Briefly discuss the concept of Money creation **(4 marks)**
- b. Explain the concept of the price level and its importance in economic policy **(4marks)**
- c. Explain and illustrate the concept of the circular flow of income **(6 marks)**
- d. Highlight Six (6) factors affecting the level of investment in an economy **(6 marks)**
- e. Suppose that
 $C = 10 + 0.8Y$
- f. $I = \text{Ksh. } 500$
 - i) Compute Equilibrium Income (Y) **(5 marks)**
 - ii) Discuss the Permanent income theory of consumption **(9 marks)**

Q2.

- a. Explain the properties and Uses of Money **(10 marks)**
- b. Discuss the Classical theory of demand for money **(10 marks)**

Q3.

- a) Describe the concept of Marginal Propensity to Consume (MPC) and its importance in economic theory, illustrate **(5 marks)**
- b) Explain the following concepts
 - I. Gross National product (GNP) **(3 marks)**
 - II. Gross Domestic Product (GDP) **(3 marks)**
 - III. Net National Income (NNI) **(3 marks)**
 - IV. Personal Income (PI) **(3 marks)**
 - V. Per Capita Income **(3 marks)**

Q4.

- a. Briefly discuss the quantity theory of Money , Illustrate **(10 marks)**
- b. Differentiate between depreciation and Devaluation of Money **(4 marks)**
- c. Explain the various methods used to correct trade deficit **(6 marks)**

Q5.

- a. Highlight the bodies charged with the implementation of monetary and fiscal policy **(4 marks)**
- b. Explain the main tools of Fiscal policy and Monetary policy **(12marks)**
- c. Highlight the types of unemployment **(4 marks)**

END