# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

## A. M. E. C. E. A

**P.O. Box 62157**
**00200 Nairobi - KENYA**
**Telephone: 891601-6**
**Fax: 254-20-891084**
**E-mail:academics@cuea.edu**

**MAIN EXAMINATION**

**JANUARY – APRIL 2017 TRIMESTER**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**REGULAR/ ODEL PROGRAMME**

**CEC 121: INTRODUCTION TO MACROECONOMICS**

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|---|---|
| **Date: April 2017** | **Duration: 2 Hours** |
| **INSTRUCTIONS: Answer Question ONE and any other TWO Questions** | |

Q1. a) Using suitable illustrations as applicable, explain briefly the following terms

1. Investment demand curve **(3 marks)**
2. Open market operations **(3 marks)**
3. Transactions demand for money **(3 marks)**
4. Net export curve **(2 marks)**

b) Using suitable illustration as applicable, distinguish clearly between the following terms

1. 'A private open economy' and 'a mixed open economy' **(3 marks)**
2. 'Demand-pull inflation' and 'cost-push inflation' **(2 marks)**
3. 'Average propensity to consume (APC)' and 'average propensity to save (APS)' **(3 marks)**

c) State

1. Three uses of national income accounting by economists and policymakers **(1 ½ marks)**
2. Three key concerns of macroeconomics **(1 ½ marks)**
3. The basic assumption of the aggregate expenditures model **(1 marks)**

d) Given the aggregate expenditures of an economy as follows:

$AE = C + I + G + NX$

where

$C = 102.5 + 0.75Y$, Y is real output; $I = 40$; $G = 10$; $NX = 5$

Required to

1. Identify the type of economy this is **(1 marks)**
2. Derive the equilibrium output, assuming the Kenya Shilling as the unit of measurement in all cases **(2 marks)**

e) Consider an economy that produces only oranges, bananas, and apples. Last year, 10 bananas, 15 oranges and 20 apples were produced. The market prices were as follows: kshs10 per orange, kshs8 per banana and kshs5 per apple. What was this economy's GDP last year? **(2 marks)**

d) In a hypothetical economy personal consumption expenditures for a particular year were kshs100, gross investment was kshs25, government purchases were kshs30, exports were kshs30, and imports were kshs38. What was this country's GDP for this particular year? **(2 marks)**

Q2. a) Using suitable illustration, explain briefly the relation between the multiplier and the marginal propensities. **(3 marks)**

b) Explain briefly the instruments of monetary policy. **(6 marks)**

c) Explain briefly the statement 'when an economy is open to international trade, exports and imports must be included as a component of a nation's aggregate expenditures'. **(4 marks)**

d) Using suitable illustrations, explain briefly the appropriate policy prescriptions to address the problem of recession and unemployment in an economy. **(7 marks)**

Q3. a) Using suitable illustrations, distinguish clearly between the short-run Philip's curve and the long-run Philip's curve. **(6 marks)**

b) Explain briefly the real income redistribution effects of unanticipated inflation. **(7 marks)**

c) Explain briefly the statement that 'consumption and saving curves are relatively stable'. **(7 marks)**

Q4. a) Using suitable illustration as applicable, explain briefly

i) The phases of business cycle **(5 marks)**

ii) Causes of business cycle **(4 marks)**

iii) impacts of business cycle **(5 marks)**

b) Explain briefly the types of unemployment **(6 marks)**

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