



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

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JANUARY – APRIL 2018 TRIMESTER

FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF SOCIAL SCIENCES

REGULAR PROGRAMME

ECN 205: PRINCIPLES OF MACROECONOMICS

Date: APRIL 2018

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. **(10marks)**
- 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 of a political rather than an economic issue. **(10 Marks)**

Q5. 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)**

END