



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

AUGUST - DECEMBER 2015 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

EVENING PROGRAMME

CEC 121: INTRODUCTION MACROECONOMICS

Date: DECEMBER 2015

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) Using suitable illustrations explain briefly the term “investment demand curve” **(3 marks)**
- b) Explain briefly the term “discouraged worker” **(2 marks)**
- c) Explain briefly the term “open market operation” **(3 marks)**
- d) Distinguish clearly between the terms “fiscal policy” and monetary policy” **(3 marks)**
- e) Explain briefly the term transaction demand for money. **(3 marks)**
- f) Distinguish clearly between the term
i A private closed economy
ii A mixed open economy using suitable illustrations. **(5 marks)**
- g) Explain briefly the term “national income accounting identity” **(3 marks)**
- h) State THREE major concerns of macroeconomics. **(3 marks)**

- i) GDP does not include non-production transactions. Explain briefly this statement. **(5 marks)**
- Q2. a) Explain in detail the income approach to computing GDP. **(8 marks)**
- b) Given the following data for a hypothetical country during the last year

	Kshs
Indirect business taxes (net of subsidies)	35
Employee compensation	455
Profits	100
Interest	30
Rental income	20
Depreciation	30
Net foreign factor payment	-40

- Required to compute the GDP of this country. **(4 marks)**
- c) Distinguish clearly between the terms “economic growth” and “economic development” **(4 marks)**
- d) Explain briefly the statement “consumption and saving curves are relatively stable” **(4 marks)**
- Q3. a) Using suitable illustration explain briefly the term “net export curve” **(5 marks)**
- b) Using suitable illustrations explain briefly the following terms
- i Recessional expenditure gap. **(4 marks)**
 - ii Inflationary expenditure gap. **(4 marks)**
- c) Explain briefly the role of the monetary authority of a country. **(7 marks)**
- Q4. a) Using suitable illustration explain briefly the term “business cycle” **(8 marks)**
- b) Distinguish clearly between the terms “anticipated inflation” and “unanticipated inflation” **(4 marks)**
- c) Using suitable illustrations explain briefly the term “Philips curve” **(8 marks)**

END