THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

AUGUST - DECEMBER 2018 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

ODEL PROGRAMME

ECN 105 / CEC 121: INTRODUCTION TO MACROECONOMICS

Date: DECEMBER 2018	Duration: 2 Hours
INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions	

Q1.   a)   Distinguish clearly between the following terms:
            i)   Microeconomics and macroeconomics   **(2 marks)**
            ii)   Final product and intermediate product   **(2 marks)**
            iii)   Gross domestic product and gross national product
                                                        (2 marks)
            iv)   A private closed economy and a private open economy.
                Illustrate your answer   **(3 marks)**
            v)   Demand pull inflation and cost push inflation   **(4 marks)**

        b)   Explain briefly the following terms
            i)   Sticky prices   **(2 marks)**
            ii)   Personal disposable income   **(2 marks)**
            iii)   GDP deflator   **(2 marks)**
            iv)   Investment demand curve. Illustrate your answer **(4 marks)**

        c)   List three (3) major concerns of macroeconomics   **(3 marks)**

        d)   Given the following information for a hypothetical economy for a particular year:
            - Personal consumption = Kshs 100
            - Gross investment = Kshs 25
            - Government purchases = Kshs 30
            - Exports = Kshs 30
            - Imports = Kss 38

ISO 9001:2008 Certified by the Kenya Bureau of Standards

Find the GDP of this economy **(2 marks)**

e) Consider an economy that, last year produced, 15 oranges, 10 bananas, and 20 apples. The market prices were Kshs 10, 8, and 5 per orange, banana, and apple, respectively. Compute the GDP for this economy. **(2 marks)**

Q2. a) Explain briefly the functions of money **(6 marks)**

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

c) Using appropriate illustration, explain briefly the use of contractionary fiscal policy to address the problem of inflation **(4 marks)**

d) Explain briefly the statement that 'some people gain while others are hurt by inflation **(4 marks)**

Q3. a) Explain briefly six (6) aspects about GDP **(10 marks)**

b) Using suitable illustration, explain briefly the determination of equilibrium output in a mixed open economy **(4 marks)**

c) Given the following information about an economy:
$C = 105 + 0.85Y_d$, $Y_d = Y - T$, $I = 50$; $X_n = 10$; $G = 20$; $T = 0.20Y$

Required to:
   i)   Determine the equilibrium output **(4 marks)**
   ii) State the type of this economy **(2 marks)**

Q4. a) Explain the non-income determinants of consumption and saving **(6 marks)**

b) Distinguish between average propensity to consume (APC) and average propensity to save (APS) **(4 marks)**

c) Given the following data for a hypothetical economy

Disposable income (Kshs)	Consumption (Kshs)
0	100
200	260
400	420
600	580
800	740

Required to compute at each income level:
   i)   The amount of saving **(2 marks)**
   ii) APC (Average Propensity to Consume **(2 marks)**

iii)	APS (Average Propensity to Save	**(2 marks)**
iv)	MPC (marginal propensity to consume)	**(2 marks)**
v)	MPS (marginal propensity to save)	**(2 marks)**

END