



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

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AUGUST – DECEMBER 2018 TRIMESTER

FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

REGULAR PROGRAMME

ECN 105: INTRODUCTION TO MACROECONOMICS

Date: DECEMBER 2018

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any other TWO Questions

- Q1. a) Briefly explain what macroeconomics deals with **(6 marks)**
- b) Explain the major goals of macroeconomic policy **(8 marks)**
- c) Show graphically when the equilibrium in the money market occurs after explaining the equations that are used to show the equilibrium. **(8 marks)**
- d) Write short notes on
- i) Demand-pull inflation **(4 marks)**
 - ii) cost push-inflation **(4 marks)**
- Q2. Write short notes on
- a) Foreign exchange regimes **(7 marks)**
 - b) Terms of trade **(4 marks)**
 - c) Upward revaluation of domestic currency **(4 marks)**
 - d) Effects of devaluation of a currency **(5 marks)**
- Q3. a) Explain the Keynesian Theory of demand for money citing and explaining the motives of demand for money. **(12 marks)**
- b) Explain the difficulties encountered in measurement of national income **(8 marks)**

- Q4. a) Outline any FIVE types of unemployment and explain each clearly (10 marks)
- b) Explain the existing policies of curing unemployment (10 marks)

Q5. The following equations describe a certain economy

$$C = 400 + 0.75Y^d \rightarrow \text{consumption function}$$

$$I = 200 - 100r \rightarrow \text{Investment function}$$

$$T = 70 + 0.2Y \rightarrow \text{Tax function}$$

$$G = 100 \rightarrow \text{CGovernment exp enditure}$$

$$X = 10 \rightarrow \text{Exports}$$

$$M = 150 + 0.06Y \rightarrow \text{Im port function}$$

$$M^S = 4000 \rightarrow \text{Money sup ply}$$

$$M^D = 0.2Y - 10r \rightarrow \text{Money demand}$$

Required

- i) Derive the IS and LM equations (8 marks)
- ii) Calculate the equilibrium Y, C, T, M and I. (12 marks)

END