



OFFICE OF THE DEPUTY PRINCIPAL
ACADEMICS, STUDENT AFFAIRS AND RESEARCH

UNIVERSITY EXAMINATIONS

2020 /2021 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER REGULAR EXAMINATION

**FOR THE DEGREE OF BACHELOR OF
ECONOMICS**

COURSE CODE: EDB 112

**COURSE TITLE: INTRODUCTION TO MACRO
ECONOMICS**

DATE: 27TH JULY, 2021

TIME: 1:00PM – 4:00PM

INSTRUCTION TO CANDIDATES

- SEE INSIDE

THIS PAPER CONSISTS OF 3 PRINTED PAGES

PLEASE TURN OVER

REGULAR – MAIN EXAM**EDB 112: INTRODUCTION TO MACRO ECONOMICS****STREAM: BA ECONOMICS****DURATION: 3 Hours**

INSTRUCTIONS TO CANDIDATES

- i. Answer Question **ONE** and any other **TWO** questions.*
- ii. Maps and diagrams should be used whenever they serve to illustrate the answer.*
- iii. Do not write on the question paper.*

Question One

- a. Define the following terms
 - i. Gross domestic products (2 marks)
 - ii. Per capita income (2 marks)
 - iii. Induced investment (2 marks)
- b. Highlight the importance of national income determination. (10 marks)
- c. Establish relationship among income, consumption and saving (4 marks)
- d. Explain five functions of money in the society (10 marks)

Question Two

- a) Clearly discuss the “Life cycle income Hypothesis” theory of consumption (10 marks)
- b) Explain any five factors that influence the level of economy of a country (10 marks)

Question Three

- i. Clearly discuss the goals of macroeconomics (10 marks)
- ii. Explain the concept of circular flow of income of an open economy and highlight its underlined assumptions using a diagram. (10 marks)

Question Four

a. Given the following macroeconomic model:

$$C = 68 + 0.77Y_d \text{ (consumption function)}$$

$$I = 114 + 0.1Y_d - 8r \text{ (Investment function)}$$

$$T = -10 + 0.25Y \text{ (Tax function)}$$

$$G = 250$$

$$M_d = 5 + 0.25Y - 10r \text{ (Money demand)}$$

$$M_s = 205 \text{ (money supply)}$$

- i) Define and derive the IS and LM curves (10 marks)
 - ii) Calculate equilibrium rate of interest and income (6 marks)
- b. Discuss any four limitations of macroeconomics (4 marks)

Question Five

- i. Explain any two methods of computing national income account, taking precaution of the necessary adjustments in each case. (10 marks)
- ii. Explain five factors that influence the level of investment in the economy (10 marks)