



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH IT
2ND YEAR 1ST SEMESTER 2015/2016 ACADEMIC YEAR
MAIN CAMPUS- RESIT

COURSE CODE: AEC 102

COURSE TITLE: INTRODUCTION TO MACRO ECONOMICS

EXAM VENUE: lab 1

STREAM: (BBA FINANCE)

DATE: 05/05/16

EXAM SESSION: 11.30 – 1.30PM

TIME: 2.00 HOURS

Instructions:

- 1. Answer Question ONE (COMPULSORY) and ANY other 2 questions**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

SECTION A: (Compulsory)

QUESTION ONE

- (a) Illustrate graphically and explain the circular flow of income and expenditure in a 5-Sector economy. **(10 Marks)**
- (b) What is the relevance of national income statistics in business decisions **(8 Marks)**
- (c) Suppose a structural equation for a given economy is given as follows:
 $C = a + bY_d$
 $Y_d = (Y - T)$, where $I = 50$, $G = 50$ and $T = 50$

Required

Find the equilibrium level of National Income, What will be the level of national Income if G increases from 50 to 75? **(8 marks)**

- (d) One way of using national income is measuring the standard of living of citizens of countries. However, there are several shortcomings of using this approach (per capita income). State and explain the limitations of this approach **(4 Marks)**

SECTION B: Answer ANY TWO Questions

QUESTION TWO

- i. Describe monetary policy. How does it differ from fiscal policy? **(4 Marks)**
- ii. Describe the various methods of measuring national income **(10 Marks)**
- iii. Define and differentiate
 - a. Normal and real GDP **(3 Marks)**
 - b. Open and closed economy **(3 Marks)**

QUESTION THREE

- (a) One of the major milestones of Kenya Constitution 2010 is devolution of funds to the 'grassroots'. However, some pundits argue that if this is not properly checked can cause inflation in counties. Do you agree with this statement? Discuss **(12 Marks)**
- (b) Enumerate and explain some of the assumptions of circular flow of income **(8 Marks)**

QUESTION FOUR

- (a)** What are the major macroeconomic issues affecting the economies of the world? **(6 Marks)**
- (b)** How would the government use fiscal and monetary policies to solve any of the two problems? **(10 Marks)**
- (c)** Distinguish between
 - (i)** GNP and GDP **(2 Marks)**
 - (ii)** Microeconomics and Macroeconomics **(2 Marks)**

QUESTION FIVE

In recent months, the Kenya shilling has been experiencing intense pressure from various factors making it loose against major world currencies.

- (a)** What is the most likely consequence of this pressure on the balance of payments if Kenya has a fixed interest rate? **(10 marks)**
- (b)** Would there be a difference if Kenya employed a flexible exchange regime? **(10 marks)**