JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATIONS 2017/2018

SECOND YEAR FIRST SEMESTER EXAMINATION

BACHELOR OF BUSINESS ADMINISTRATION (BBA) WITH IT

MAIN CAMPUS (REGULAR)

AEC 102: INTRODUCTION TO MACROECONOMICS.

Date: _____ **Time:** _____

INSTRUCTIONS:

Attempt question ONE and any other TWO questions.

Question one carries 30 marks.

QUESTION ONE (COMPULSORY)

a) Define the following terms; (6mks)
   i. National income at factor cost
   ii. Gross national product (GNP) Deflator
   iii. Undistributed business profits
   iv. Spend thrift economy
   v. Marginal propensity to consume (MPC)
   vi. Equalization fund

b) State ANY FIVE differences between Microeconomics and Macroeconomics (5mks)

c) Highlight the factors that influence the decision to invest. (10mks)

d) Briefly discuss some of the monetary policy instruments that may be imposed by the Central Bank of Kenya (CBK) to achieve a contractionary effect in a Kenyan economy marred by lots of money in circulation. (9mks)

QUESTION TWO

a) Distinguish between gross domestic product at market price and gross domestic product at factor cost. (3mks)

b) Briefly discuss some of the limitations of using per capita income as a measure of standard of living. (11mks)

c) Briefly discuss some of the relevance of studying consumption. (6mks)

QUESTION THREE

a) Citing examples, distinguish between an endogenous and exogenous variable in a Keynesian model. (4mks)

b) Illustrate with a diagram and explain the concept of the circular flow of income. (8mks)

c) Assume a simple two sector model where the commodity market of a given economy is presented hypothetically below

$Y = C + I$ (National income function)

$C = 100 + 0.3Y$ (Consumption function)

and $I = I_o$ (Investment function)

i) Explain the economic interpretation of the parameters 100 and 0.3. (2mks)

ii) Find the equilibrium values of income and consumption. (6mks)

QUESTION FOUR

a) Distinguish between tax and fees (2mks)

b) State any FIVE essential features of a good tax system (5mks)

c) Briefly discuss some of the determinants of savings (5mks)

d) Briefly discuss the three approaches used in measuring the national income of a country and show why they give the same estimates. (8mks)

QUESTION FIVE

Briefly discuss the following;

a) The role of Commission of Revenue Allocation (CRA) in Kenya. (4mks)

b) Withdrawal and Injection in circular flow of income and expenditure in a frugal economy? (4mks)

c) Life cycle hypothesis with regard to theories of consumption behaviour in short and long run. (4kms)

d) Monetary and Fiscal policy. (4mks)

e) Autonomous investment and induced investment. (4mks)