



# MURANG'A UNIVERSITY COLLEGE

(A Constituent College of Jomo Kenyatta University of Technology)

UNIVERSITY EXAMINATIONS 2013/2014

YEAR 2 SEMESTER I EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS  
INFORMATION TECHNOLOGY (BBIT)

**HBT 2201: MACROECONOMICS:**

**DATE:**

**TIME:**

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**INSTRUCTIONS:** Answer **Question ONE** and **any other TWO** questions.

**TIME ALLOWED:** TWO hours

## QUESTION ONE:

- a. Explain the Keynesian theory of Money demand, clearly bringing out his point of view on the motivation as to why people hold money. (10 marks)
  
- b. A hypothetical closed economy has a national income model in the form  $= C + I + G$   
where:  $C = 30 + 0.8Y$ ; and  
I and G are Private Investment and Government Expenditure, which are exogenously determined at 50 and 80 units respectively.

Compute the national equilibrium level of income for this economy using:

- i. aggregate income equals aggregate expenditure method (6 marks)
  - ii. Withdrawals and equals Injection method. (6 marks)
- c. The International Monetary Fund is an international financial institution that aims at promoting international money cooperation. Highlight its main roles. (8 marks)

## QUESTION TWO:

- a. In many developing countries, over 80% of national Income is controlled by about 20-30% of the country's population.
  - i. Highlight FOUR causes of Inequalities in national income distribution (4 marks)
  - ii. Provide THREE arguments in each case, in favour and against equitable distribution of wealth. (6 marks)
- b. Briefly describe the concept of "the Multiplier" as proposed by Keynes. (4 marks)  
It has been argued that the concept of the Multiplier is limited in application in a developing economy. Explain. (6 marks)

**QUESTION THREE:**

- a. Differentiate between Cost push and Demand pull inflation. In each case, Explain THREE causes. (10 marks)
- b. Write short notes on the following : (10 marks)
- Nominal Gross National Product
  - Real Gross National Product
  - Per Capita Income
  - Net National Product

**QUESTION FOUR:**

- a. Differentiate between the concepts of Absolute and Comparative advantage
- b. as applied in international trade. (4 marks)
- What are the limitations of applying the theory of comparative advantage in developing countries? (8 marks)
- c. Explain any FOUR barriers to economic development. (8 marks)

**QUESTION FIVE:**

- a. Briefly describe the Quantity Theory of money as proposed by Irvin Fisher. (6 Marks)
- Explain at least THREE shortcomings of this theory (6 marks)
- b. Highlight the considerations that govern Public expenditure. (8 marks)