



**MURANG'A UNIVERSITY COLLEGE**  
**(A Constituent College of Jomo Kenyatta University of Agriculture & Technology)**

SECOND SEMESTER EXAMS FOR THE DEGREE OF

BACHELOR OF COMMERCE (Bcom)

UNIT CODE: HBC 2104 – MACROECONOMICS

TIME: 2 hours

DATE: 10<sup>th</sup> march 2015

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**Instructions:-**

- Answer questions one & any other two questions.

1a. The following data relate to the commodity and money markets of the economy of county XYZ.

$$Y = C + I$$

$$C = 50 + \frac{2}{3}Y$$

$$I = 790 - 21r$$

$$M_{D1} = \frac{1}{6}Y$$

$$M_{D5} = 1200 - 18r$$

$$M_s = 1250$$

**Required:**

- Equilibrium level of national income (5 marks)
  - Equilibrium level of interest rate. (5 marks)
- b. Discuss the monetary policy instruments used to control money supply in an economy. Why do they arrive at the same estimate? (10 marks)
- c. Discuss the methods that are used to determine the national income of a country. (10 marks)
2. Examine critically the case for and against the policy of protectionism. (20 marks)

3a. What difficulties are encountered in the determination of the national income of a country. (10 marks)

b. Discuss the circular flow of income and expenditure in a two sector economy with the aid of a suitable diagram. (6 marks)

c. Briefly describe how the multiplier and the accelerator works. (4 marks)

4a. You are given the following information about the economy of 'utopia'

$$\begin{aligned} Y &= C + I + G \\ C &= a + b(Y - T) \\ T &= d + tY \\ I &= I_0 \\ G &= G_0 \end{aligned}$$

Where

$$a > 0; 0 < b < 1$$

$$d > 0; 0 < t < 1$$

T = taxes

I = Investment

G = Government expenditure

**Required;**

i. Explain the economic interpretation of the parameter a, b, d and t. (4 marks)

ii. Find the equilibrium values of income, consumption and taxes. (12 marks)

b. Give any four uses of National income statistics. (4 marks)

5a. Using a well labeled diagram illustrate how the equilibrium in the IS – LM model is attained. (6 marks)

b. Discuss the determinants of the national income of a country. (12 marks)

c. Define the term Gross National product. (2 marks)