



The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER-2019

**EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE
BUSINESS/COMMERCE**

UNIT CODE:

UNIT TITLE: INTRODUCTION TO MACRO-ECONOMICS

DATE: DECEMBER, 2019

TIME:

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

- (a) The following equations describe a certain economy

$C=100+0.16Y_d$	(Consumption function)
$I=200$	(Investment)
$G=800$	(Government Purchases)
$T=20+0.5Y$	(Tax function)
$X=1000$	(Export)
$M=20+0.2Y$	(Import function)

Required:

- a) Derive equilibrium income (Y), Tax revenue (T) import (M) and consumption (C) (12 marks)
- b) Distinguish between the following concepts
- i) Macro-economic and micro-economics (4 marks)
 - ii) Positive economics and normative economics (4 marks)
 - iii) Marginal propensity to consume (5 marks)
 - iv) Marginal propensity to save (5 marks)

QUESTION TWO

- (a) Discuss the Fiscal policy and its objectives (10 marks)
- (b) How can the government of Kenya deal with the rising rates of unemployment among the Kenyan Youth (10 marks)

QUESTION THREE

- (a) Discuss determinant of money supply (10 marks)
- (b) Define inflation and explain its causes (10 marks)

QUESTION FOUR

- (a) In the process of economic growth business cycles are inevitable. With examples discuss the business trade cycles (10 marks)
- (b) Define what the multiplier is and its function (10 marks)

QUESTION FIVE

- (a) Draw an aggregate demand and supply curve graph showing an inflation gap and deflationary gap (10 marks)
- (b) Explain the concept of International trade citing the reasons “For and “Against” (10 marks)