ALUPE UNIVERSITY COLLEGE

Bastion of Knowledge...

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OFFICE OF THE DEPUTY PRINCIPAL

ACADEMICS, RESEARCH AND STUDENTS' AFFAIRS

UNIVERSITY EXAMINATIONS

2018 /2019 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER REGULAR EXAMINATION

FOR THE DIPLOMA OF ECONOMICS

COURSE CODE: DECO 011

COURSE TITLE: MACRO ECONOMICS

DATE: 16/04/2019   **TIME: 2-5 PM 3 HOURS**

INSTRUCTION TO CANDIDATES

- **SEE INSIDE**

THIS PAPER CONSISTS OF 4 PRINTED PAGES   **PLEASE TURN OVER**

INSTRUCTIONS TO CANDIDATES

- *Answer Question **ONE** and any other **TWO** questions*
- *Question ONE carries 30 marks*
- *Time allowed: 3 hours*

QUESTION ONE. (Total: 20 Marks)

a) Discuss the Neoclassical and Keynesian theory of income and employment.   (5 Marks)

b) How is national income determined? Explain by the help of diagrams. .   (5 Marks)

c) Savings are always equal to investment." Discuss this statement.   (5 Marks)

d) What is multiplier? Explain the investment multiplier.   (5 Marks)

QUESTION TWO.

a) Explain by use of a graph how IS-LM curves are derived.

b) Using the IS-LM model show the effects on the equilibrium income and the rate of interest of a change in the real money supply.

QUESTION THREE.

a) What is a consumption function, explain the psychological theory of consumption.   (10 marks)

b) Give a simple Keynesian model and state the determinants of national income.   (10 marks)

QUESTION FOUR.

a) Explain the main reasons that aggregate demand curve slopes downwards.   (6 Marks)

b) Critically evaluate both the Keynesian and classical ranges of the aggregate supply curve. (6 Marks)

c) State the factors that are likely to shift the aggregate supply curve to the right and explain how this happens.   (6 Marks)

QUESTION FIVE (Total: 20 Marks)

a) The G.D.P of a country doubled while the population increased by 15%. Explain and illustrate: i. The changes in per capital income (4 Marks) ii. The changes in economic welfare   (4 Marks)

b) Explain the causes of inflation in Kenya today   (6 Marks)