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OFFICE OF THE DEPUTY PRINCIPAL
ACADEMICS, STUDENT AFFAIRS AND RESEARCH

UNIVERSITY EXAMINATIONS

2017 /2018 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER REGULAR EXAMINATION



**FOR THE DEGREE OF ECONOMICS/
BBM/BACHELOR OF EDUCATION (ARTS)**

COURSE CODE: ECO120 /EDB 107

**COURSE TITLE: PRINCIPLES OF
MACROECONOMICS**

DATE: 27TH APRIL, 2018

TIME: 2PM – 5 PM

INSTRUCTION TO CANDIDATES

- SEE INSIDE

THIS PAPER CONSISTS OF 3 PRINTED PAGES

PLEASE TURN OVER

INSTRUCTIONS TO CANDIDATES

- Answer Question **ONE** and any other **TWO** questions
- Question **ONE** carries 30 marks
- Do not write on the question paper

Question One

- a) Explain the main reasons why the aggregate demand curve slopes downwards. (6 Marks)
- b) 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)
- d) 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)
- e) Explain six causes of inflation in Kenya today (6 Marks)

Question Two

- a) Outline the methods of calculating the national income and clearly show how each methods arrives at the Net national product of a country (12 Marks)
- b) Explain the Keynesian Theory of holding money and demonstrate/illustrate each argument (8 Marks)

Question Three

- a) With the help of a diagram, explain the circular flow of income of an open economy (12 Marks)

b) Explain by use of a graph how IS-LM curves are derived. (8 Marks)

Question Four

a) Explain five reasons for Exchange rate fluctuations (10 Marks)

b) State and explain the assumptions of the comparative advantage theory (10 Marks)

Question Five

a) By use of a diagram, explain the difference between the different types of inflation (10 Marks)

b) Keynes developed the concept of the multiplier with the intention of arguing that extra government spending on public works which is financed by a budget deficit would have a positive effect on a demand deficient economy, however several factors limit the application of the multiplier for an economic management. Discuss these factors. (10 Marks)

