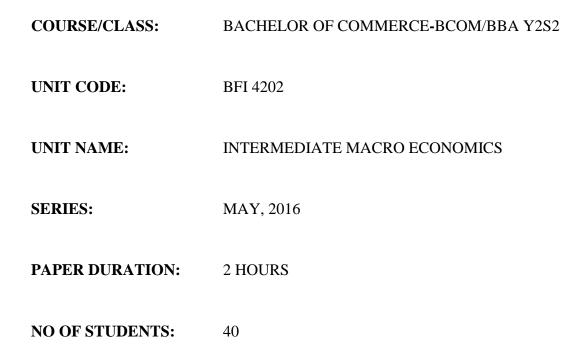
PAPER B



SCHOOL OF BUSINESS

MANAGEMENT SCIENCE DEPARTMENT



INSTRUCTIONS TO CANDIDATES:

Answer question ONE (Compulsory) and any other TWO questions.

Q1(a)	Differentiate	between t	he following	paired concepts:-
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(i)	Curre	nt Accou	(2 marl	(2 marks)				
(ii)	Life cy	Life cycle hypothesis and permanent income hypothesis (4 ma						
(iii)	Inflati	Inflationary gap and Deflationary gap (4 mar						
(iv)	Exoge	Exogenous and Eudogenous variable (2 mar						
(v)	Invest	Investment Multiples and Acceleration Principle (4 mar						
(b)	Com	Compute the equilibrium and multiplier from the following data						
	С	=	$50n + 0.8y^2$					
	Ι	=	70					
	G	=	200					
	Т	=	0.2y		(6 marks)			
(i)	Using	Using the IS – LM frame work, determine income and the rate of interest						
(ii)	i) Examine FOUR factors that may lead to the change of Aggregate supply in an economy							
					(10 marks)			
(c)	(c) Distinguish between Gross National produced and Gross Domestic Product. Explain which of the two is highest and why in developing countries. (6 marks)							
Q2. (a) With reference to Kenya, discuss the problem encountered in the measurement of National Income in developing countries. (6 marks)								
(1	(6 marks)							
(0	(3 marks)							
Q3. (a	(6 marks)							
(b)Explain the following kinds of inflation								
	(i)	(i) Demand pull inflation			(2 marks)			
	(ii)	Cost	push inflation		(2 marks)			
(c) Write brief notes on the following economics concepts:-								
	(i)	The n	nultiplier		(2 marks)			
	(ii)	Autor	nomous and induced consumption		(3 marks)			
Q4. (a	(5 marks)							
(1	(b)Explain in detail the real theory of interest (5 marks)							

(c) Explain how a budget deficit can be resolved according to the classical economists

(5 marks)

- Q5. (a) Using the classical crowding out of private investment concept, explain the consequences of the Central Bank of Kenya's decision to lower the minimum amount for investment in treasure bonds from ksh. 1 million to kshs 50,000 on the performance of the Nairobi Stock exchange.
 - (b) Most developed countries are formulating rescue packages for their economies in the face of the current global financial crisis. Using a well labeled diagram, explain the effectiveness of the fiscal policies and monetary policy in addressing this problem.

(8 marks)