CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

CHUKA/EMBU

EXAMINATION FOR THE AWARD OF DIPLOMA IN BUSINESS MANAGEMENT

DIBM 0132: PRINCIPLES OF MACROECONOMICS

STREAMS: **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY 12/04/2023   **11.30 A.M – 1.30 P.M**

INSTRUCTIONS:

Answer question one and any other two questions

Do not write on the question paper

QUESTION ONE

(a) Differentiate between the following terms as used in economics.

   (i)   Macroeconomics and microeconomics

   (ii)   Marginal propensity to consume and marginal propensity to save

   (iii)   Per capita income and disposable income

   (iv)   Open involuntary unemployment and open voluntary unemployment. [8 marks]

(b) Explain three major goals of macroeconomics in the economy.   [6 marks]

(c) Given the following equation for a certain economy, I = 200, G = 75, T = 0.5Y, C = 50+0.5Y^d, Compute:

   (I)   The equilibrium income   [3 marks]

   (II)   Consumption   [3 marks]

   (III)   Saving function   [2 marks]

(d) Differentiate between demand pull and cost push inflation.   [4 marks]

(e) Outline FOUR importance of macro economics in the economy.   [4 marks]

QUESTION TWO

    (a) With the aid of a diagram, explain the circular flow of income of a three sector economy. [8 marks]

    (b) Explain three distinctive motives of holding money according to Keynes. [6 marks]

    (c) In Kenya, unemployment has become a big problem. Briefly explain three types of unemployment that exists in Kenya today. [6 marks]

QUESTION THREE

    (a) Explain the causes and remedies of unemployment in Kenya. [8 marks]

    (b) Explain three factors that determine the level of investment in an economy. [6 marks]

    (c) Given the following consumption and tax function.

        $C = 200 + 0.75Yd$

        $T = 40 + 0.2\ Y$

        Proof that MPC+MPS = 1 [6 marks]

QUESTION FOUR

    (a) Kenya has a high level of GDP and GNP than Uganda. Does this mean that the economic welfare of Kenya is better than that of Uganda? Explain your answer. [6 marks]

    (b) Highlight the policies which can be implemented to cure inflation. [6 marks]

    (c) Explain the difficulties during measurement of national income. [8 marks]