

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF ECONOMICS

ECON 121: PRINCIPLES OF MACROECONOMICS

STREAMS: Y1S2 ODEL

TIME: 2 HOURS

DAY/DATE: TUESDAY 06/08/2019

2.30 P.M. – 4.30 P.M.

INSTRUCTIONS:

QUESTION ONE

- (a) Clearly explain the meaning of deficit financing of the national budget. (5 marks)
- (b) To what extent can an economy be supported by deficit financing? (5 marks)
- (c) What are the main causes of budget deficit? (8 marks)
- (d) Explain why reduction of government deficits has increasingly become an important issue in fiscal policy framework and developing countries. (6 marks)
- (e) Clearly explain the role of budgeting management in economic development. (6 marks)

QUESTION TWO

- (a) What is meant by the term international trade? (3 marks)
- (b) Define and briefly explain balance of payment (BOP). (3 marks)
- (c) Most developing countries especially the sub-saharan African countries have not realized the full benefits from international trade. You are required to:
 - (i) Discuss the main reasons why such countries have not realized these benefits. (8 marks)
 - (ii) What policy measures would you recommend to help the countries realize the benefits of trade. (6 marks)

QUESTION THREE

- (a) Define the term monetary policy. (2 marks)
- (b) Discuss any four instruments of this policy used to control and regulate many supply of the central banking authority. (12 marks)
- (c) What limits the successful application of the above tools mentioned in part B in developing countries like Kenya. (6 marks)

QUESTION FOUR

Kenya is planning to be a newly industrialized country by the year 2030. What obstacles are likely to impede the achievement of this objective and what steps must be taken to overcome such obstacles? (20 marks)

QUESTION FIVE

- (a) Define inflation (4 marks)
 - (b) What are the effects of high and rising inflationary rate on the rate of interest? (4 marks)
 - (c) Suggest economic measures to curb inflation in Kenya. (5 marks)
 - (d) Suggest the possible measures you would recommend to contain unemployment problems in Kenya. (7 marks)
-