

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

FIRST YEAR EXAMINATION FOR THE AWARD OF DEGREE  
OF BACHELOR OF COMMERCE

ECON 121: PRINCIPLES OF MACROECONOMICS

STREAMS: ECON

TIME: 2 HOURS

DAY/DATE: TUESDAY 05/12/2017

2.30 P.M. – 4.30 P.M.

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INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS) – COMPULSORY

- (a) Differentiate the following terms [10 marks]
- (i) Economic theory and economic model
  - (ii) GDP and GNP
  - (iii) Inflationary and Deflationary gap
  - (iv) Central bank and Commercial bank
  - (v) IS and LM
- (b) Derive consumption and the saving functions and state their similarities. [10 marks]
- (c) Discuss 4 basic functions of money. [4 marks]
- (d) Suppose that
- $$C = 10 + 0.8 Y$$
- $$\bar{I} = \text{Ksh. } 500$$
- Compute equilibrium income ( $\bar{Y}$ ) [3 marks]
- (e) Define 3 types of inflation. [3 marks]

QUESTION TWO (20 MARKS)

- (a) Discuss cost push and demand pull inflation and highlight their causes. [16 marks]
- (b) Highlight 4 importance of macroeconomics. [4 marks]

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### QUESTION THREE (20 MARKS)

- (a) Using a diagram explain a fixed exchange rate. [10 marks]
- (b) Highlight 4 measures to correct balance of payment deficit. [14 marks]
- (c) Highlight the causes of unemployment. [6 marks]

### QUESTION FOUR (20 MARKS)

- (a) Highlight determinant of investment. [10 marks]
  - (b) Explain the difficulties in measuring national income. [10 marks]
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