CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

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

BCOM 104: PRINCIPLES OF MACROECONOMICS

STREAMS: BCOM YIS2 (ODEL)   **TIME: 2 HOURS**

DAY/DATE: MONDAY 6/08/2018   **8.30 am – 10.30 am**

INSTRUCTIONS:

ANSWER QUESTION ONE AND ANY OTHER TWO FROM THE REMAINING

QUESTION ONE

(a)   Assume the following information represented the national income model of an economy

$$YY = C + I + G$$

$$C = a + b(Y - T)$$

$$T = d + ty$$

$$I = d + ty$$

$$I = ¿ \quad I_0$$

$$G = Go$$

Where
$A > 0; 0 < B < 1$

$D > 0; 0 < T < 1$

T – Taxes
I – Investment
G – Government expenditure

(i)   Explain the economic interpretation of the parameters a, b, d and t. [4 marks]

(ii)   Find the equilibrium value of income, consumption and taxes.   [8 marks]

(b)   Discuss the three approaches used in measuring the national income of a country and show why they give the same estimate.   [8 marks]

(c)   Modern economics are highly influenced by the way their budgets are frame worked you are required to:

(i)   Clearly explain the role of budgetary management in economic development.   [6 marks]

(ii)   Briefly explain the types of budgets   [4 marks]

QUESTION TWO

(a)   Why is it important to estimate national income of a country? What difficulties do economists encounter while carrying out such a task particularly in developing countries.   [10 marks]

(b)   The table below represents economic transactions for country XYZ in billions of shillings:

	Total output	Intermediate goods
Agriculture	30	10
Manufacturing	70	45
Services	55	25

Require to:

(i)   Calculate the Gross National product of this economy using value added approach.   [3 marks]

(ii)   If depreciation and indirect taxes equal 8 billion and 7 billion shillings respectively, find the net domestic product at market prices and at factor cost.   [4 marks]

(iii)   Briefly explain the multiplier and accelerator principles.   [3 marks]

QUESTION THREE

(a)   You are given the following information about the commodity and money markets of a closed economy without government intervention.

- The commodity market

Consumption function: $C = 50 + \dfrac{2}{5}Y$

Investment function : $I = 790 - 218$

-The money market

Precautionary and transactionary demand for money $M_{DT} = \dfrac{1}{6}Y$

Speculative demand for money

$M_{DS} = 1200 - 18r$

Money supply : $MS = 1250$

You are required to:

(i)   Determine the equilibrium levels of income and interest rate for this economy.
                                                                                                                        [8 marks]

(ii)   Using a well labeled diagram, illustrate the equilibrium condition in part (i)
                above.   [4 marks]

(b)   A central bank is largely referred by economists as the bank at the apex with monetary authority. Clearly explain the major functions of a central bank.   [8 marks]

QUESTION FOUR

(a)   Define money and outline its major functions.   [8 marks]

(b)   Explain various motives for holding money.   [6 marks]

(c)   What are the likely effects of an expansionary monetary policy in an economy?
                                                                                                                        [6 marks]

QUESTION FIVE

(a)   What is meant by the term international trade?   [4 marks]

(b)   In the context of international trade, explain the concept of comparative advantage with specialization.   [10 marks]

(c)   Define and briefly explain balance of payment (BOP)   [6 marks]