

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

$$YY = C + I + G$$

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

$$T = d + ty$$

$$I = d + ty$$

$$I = i I_0$$

$$G = G_0$$

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:  $C = 50 + \frac{2}{5}Y$

Investment function :  $I = 790 - 218r$

-The money market

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

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]

