

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

FIRST YEAR EXAMINATIONS FOR THE AWARD OF DIPLOMA IN BUSINESS  
MANAGEMENT

DIBM 0132: PRINCIPLES OF MACROECONOMICS

STREAMS: DIBM (Y1S2)

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 08/8/2018

2.30 P.M. – 4.30 P.M.

**INSTRUCTIONS: Answer question ONE and any other TWO questions**

**QUESTION ONE**

- (a) Write short notes on the following terms giving examples where necessary
- (i) Macroeconomic models [2 marks]
  - (ii) Leakages [2 marks]
  - (iii) Injections [2 marks]
  - (iv) Disposable income [2 marks]
  - (v) Autonomous investment ( $I_0$ ) [2 marks]
- (b) Using a well labeled diagram, discuss the circular flow of income in an open economy [8 marks]
- (c) Macroeconomic policies are key to functioning of any given economy. Discuss the major goals of macroeconomic policy in an economy [10 marks]
- (d) Suppose that;
- $C = 20 + 0.4y$
- $I = 400$
- Calculate/compute equilibrium income ( $\bar{Y}$ ) [2 marks]

**QUESTION TWO**

- (a) Per capita income is not a good measure of material well-being of people in an economy.  
Discuss [8 marks]
- (b) An individual's aggregate demand for money is based on a decision that takes the three motives into account. Explain the three motives for holding money according to Keynes [6 marks]
- (c) Discuss 6 determinants of investment in an economy [6 marks]

**QUESTION THREE**

- (a) State and explain 5 factors that cause cost-push inflation in an economy [5 marks]
- (b) Discuss three approaches to measurement of national income [7 marks]
- (c) Using a well-labeled diagram, discuss the concept of paradox of thrift [6 marks]
- (d) Distinguish between intended and unintended investment [2 marks]

**QUESTION FOUR**

- (a) State and explain the determinants of consumption in an economy [7 marks]
  - (b) Discuss the internal effects of inflation [7 marks]
  - (c) State and explain 6 policies for curbing unemployment in any given economy [6 marks]
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