CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF
BACHELOR OF COMMERCE

ECON 121/BCOM 104: PRINCIPLES OF MACROECONOMICS

STREAMS: BCOM   **TIME: 2 HOURS**

DAY/DATE: TUESDAY 14/04/2020   **2.30 PM – 4.30 PM**

INSTRUCTIONS:

- **Answer Question One and any other Two Questions**
- **Do not write anything on the question paper**

QUESTION ONE (COMPULSORY)

(a)   Explain the approaches used to measure national income.   [6 marks]

(b)   Explain the determinants of consumption expenditure in an economy.   [6 marks]

(c)   The commodity and money markets for a hypothetical economy are given as follows:

$C = 100 + 0.6y^d$	Consumption function
$I = 1800 - 2.5r$	Investment function
$G = 200$	Government expenditure
$X = 150$	Export
$M = 80 + 0.1y$	Import function
$T = 70 + 0.2y$	Tax function

Money market

$Lt = 0.2y$	Transaction demand for money
$Lsp = 100 - 2r$	Speculative demand for money
$Ms = 750$	Money supply

Required:

(i)   Derive the IS equation and LM equation   [6 marks]

(ii)   Calculate the equilibrium income, interest rate, investment and consumption
[8 marks]

(iii)   Show whether this country is experiencing trade balance, deficit or surplus. Show your workings.   [2 marks]

(iv)   Does this country have budget deficit, surplus or balanced budget? Show your workings.   [2 marks]

QUESTION TWO

(a)   Discuss the major goals of macroeconomic policy and clearly define the major policies that are used by the government to achieve these macrogoals.   [12 marks]

(b)   Under a flexible exchange rate regime, market forces correct any deficit in the balance of trade, but it takes time to achieve equilibrium after an initial disturbance. Discuss this statement with the aid of a diagram.   [8 marks]

QUESTION THREE

(a)   Developing countries have experienced persistent and rising unemployment. Explain the major causes and suggest economic policies that may be used to reduce the magnitude of the problem.   [10 marks]

(b)   The following information is for country X which has total population of 40 million people

Item	Ksh. Million
Social insurance contribution	3,000
Government transfer payments to persons	1,400
Undistributed corporate profits	2,500
National income	35,000
Personal savings	1,300
Indirect taxes	2,200
Capital consumption allowance	2,900
Interest payment by government	1,500
Personal taxes	1,600
Subsidies given by government	1,300

Required:
Compute the following

(i)   Gross National Product (GDP)   [2 marks]

(ii)	Per capital income	[2 marks]
(iii)	Personal income	[2 marks]
(iv)	Personal consumption expenditure	[2 marks]
(v)	Disposable income	[2 marks]

QUESTION FOUR

(a)   Different countries have different sizes of their national income. Explain the reason for difference's in sizes of national incomes.   [10 marks]

(b)   Discuss the Keynesian theory of money demand.   [10 marks]

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