

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR

BCOM 104/ECON 121: PRINCIPLES OF MACROECONOMICS

STREAMS:

TIME: 2 HOURS

DAY/DATE: TUESDAY 30/03/2021

8.30 A.M – 10.30 A.M

INSTRUCTIONS:

QUESTION ONE

- (a) Distinguish between the following concepts;
- (i) Marginal propensity to save and average propensity to save. [2 marks]
 - (ii) Appreciation and devaluation of currency. [2 marks]
 - (iii) Balance of payment and balance of trade. [2 marks]
 - (iv) Precautionary and speculative money demand. [2 marks]
 - (v) Fixed and flexible exchange rate regime. [2 marks]
- (b) Distinguish between withdrawals and injections. How do they affect the size of the circular flow of income and expenditure in an economy? [9 marks]
- (c) The following information is for country X which has total population of 15 million people.

Item	Ksh million
Social insurance contribution	6,000
Government transfer payments to persons	2,800
Undistributed corporate profits	3,000
National income	35,000

Personal savings	2,600
Indirect taxes	4,400
Capital consumption allowance	3,900
Interest payment by government	3,000
Personal taxes	3,200
Subsidies given by government	2,600

Required ;

Compute the following

- (i) Gross National Product(GNP) [3 marks]
- (ii) Per capital income [1 mark]
- (iii) Personal income [3 marks]
- (iv) Personal consumption expenditure [2 marks]
- (v) Disposable income [2 marks]

QUESTION TWO

- (a) A change in investment spending can cause the C+ I line to shift from equilibrium at full employment position. Illustrate and discuss the scenarios when this can occur and explain the various interventions that can bring back this economy to its full employment position. [10 marks]
- (b) Discuss the economic effects of inflation. [10 marks]

QUESTION THREE

- (a) Discuss the importance and limitations of macroeconomics. [8 marks]
- (b) The following information describe a certain economy

$$C = 400 + 0.75 Y^d$$

$$I = 200 - 100r$$

$$T = 70 + 0.2 Y$$

$$G = 100$$

$$X = 10$$

$$M = 150 + 0.06Y$$

$$M_s = 4000$$

$$M_d = 0.2Y - 10r$$

- (a) Derive the IS and LM equations from the above information. [4 marks]
- (b) Determine the equilibrium income, interest rate, consumption, tax, investment and imports. [8 marks]

QUESTION FOUR

- (a) Explain how classical and Keynesian views about determinants of consumption, savings and investment differ. [4 marks]
- (b) Discuss how the following policies can be used to control inflation in an economy.
- (i) Demand management policies. [6 marks]
 - (ii) Prices and income policies [4 marks]
 - (iii) Indexation [2 marks]
- (c) Show and explain the graphical derivation of the LM curve. [4 marks]
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