

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATION
RESIT/SUPPLEMENTARY / SPECIAL EXAMINATIONS
EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF**

BCOM 104/ECON 121/BBAM 103: PRINCIPLES OF MACROECONOMICS

STREAMS:

TIME: 2 HOURS

DAY/DATE: THURSDAY 04/11/2021

2.30 P.M - 4.30 P.M.

INSTRUCTIONS:

- Answer question one and any other two.

Question One

- a. Given the following information about a certain economy.

$$C = 300 + 0.64Y^d \rightarrow \text{consumption function}$$

$$I = 100 - 10r \rightarrow \text{Investment function}$$

$$T = 50 + 0.1y \rightarrow \text{Tax function}$$

$$G = 200 \rightarrow \text{Government expenditure}$$

$$M_s = 1000 - \text{Money Supply}$$

$$M_d = 0.2Y - 10r - \text{Money demand}$$

Required;

- i. Derive the IS and LM schedules (4 marks)
 - ii. Find the equilibrium income, interest rate, consumption, investment and money demand (7 marks)
- b. Per capita income of Kenya is three times higher than that of Uganda; therefore, the welfare of Kenyans is three times higher than Ugandans. Do you agree? Explain.

[10

Marks]

- c. Explain the causes and remedies of unemployment in Kenya. [9 Marks]

Question Two

- a. Explain the main motives for demanding money according to Keynesian. [10 Marks]
- b. Explain the uses of national income accounting. [10 Marks]

Question Three

- a. Discuss the causes of cost push inflation [10 Marks]
- b. Using illustrations explain the differences between inflationary gap and deflationary gap.
How are these gaps removed? Explain. [10 Marks]

Question Four

- a. Discuss the determinants of investment. [10 Marks]
 - b. Discuss the circular flow of income in an economy and illustrate leakages and injections from the model [10 marks]
-