

CHUKA

UNIVERSITY



## UNIVERSITY EXAMINATIONS

## EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF ECONOMICS

## ECON 121: PRINCIPLES OF MACROECONOMICS

STREAMS: (ODEL)

TIME: 2 HOURS

DAY/DATE: MONDAY 14/04/2025

2.30 P.M. – 4.30 P.M.

**INSTRUCTIONS**

- Answer question ONE and any other TWO
- Do not write anything on the question paper

**QUESTION ONE**

- a) Explain the difficulties in measuring national income. (4 marks)
- b) Differentiate the following economic terms (8 marks)
- Leakages and injections
  - Fixed and flexible exchange rate
  - Autonomous and induced investment
  - Per capita and disposable income
- c) Explain the major goals of Macroeconomic policy (6 marks)
- d) Given the following equation for a certain economy,  $I= 50$ ,  $G= 750$ ,  $T= 0.25Y$ ,  
 $C= 20+ 0.5Y^d$ , Compute;
- The equilibrium income. (3 marks)
  - Consumption. (3 marks)
  - Saving function. (2 marks)
- e) Given that  $C= 100 + 0.33 Y^d$   
 $T= 10 + 0.2 Y$
- Prove that  $MPC + MPS = 1$ . (4 marks)

**QUESTION TWO**

- a) Explain the causes and remedies of unemployment in Kenya. (8 marks)
- b) Briefly highlight the determinants of investment in an economy. (6 marks)
- c) Discuss the basic functions of money. (6 marks)

**QUESTION THREE**

- a) With the aid of a diagram, explain the circular flow of income of a three-sector economy. (10 marks)
- b) Using a well labelled diagram Explain the fixed exchange rate regime. (10 marks)

**QUESTION FOUR**

- a) Discuss the policies which can be implemented to cure inflation. (6 marks)
- b) Kenya has a high level of GDP and GNP than Uganda. Does this mean that the economic welfare of Kenya is better than that of Uganda? Explain your answer (6 marks)
- (c) Explain the factors determining size of an economy's national Income (8 marks)

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