

LAIKIPIA



UNIVERSITY

UNIVERSITY EXAMINATIONS

2ND SEMESTER 2023/2024 ACADEMIC YEAR

FIRST YEAR EXAMINATION FOR THE DEGREE
BACHELOR OF SCIENCE IN ECONOMICS AND
STATISTICS AND BACHELOR OF COMMERCE

**ECON 121/BCOM -122: PRINCIPLES OF MACROECONOMIC
THEORY**

STREAM:

TIME: 2 HRS

DAY: THURSDAY [8.30-10.30 A.M]

DATE: 11/04/2024

THIS QUESTION PAPER CONSISTS OF THREE (3) PAGES

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QUESTION ONE

- a) Differentiate between terms of trade and balance of trade (2 marks)
- b) Explain how National Income of a country can be measured using output approach (3 marks)
- c) Discuss any three types of unemployment (6 marks)
- d) Briefly describe the credit creation process (5 marks)
- e) The goods market model of a hypothetical economy is given by;

$Y = C + I+G+X-M$	<i>National Income Identity</i>
$C = 400+ 0.75Y^d$	<i>Consumption function</i>
$I = 200$	<i>Investment Expenditure</i>
$G = 150$	<i>Government Expenditure</i>
$T = 100 + 0.2Y$	<i>Tax function</i>
$X = 100$	<i>Exports</i>
$M = 150 + 0.1Y$	<i>Import function</i>

Required;

- i) Compute the equilibrium national income (4 marks)
- ii) What is the value of imports when the economy is at equilibrium? (2 marks)
- iii) Obtain the trade balance and describe its position (4 marks)
- iv) Compute the government expenditure multiplier and tax multiplier (4 marks)

QUESTION TWO (20 MARKS)

- a) Define the term IS curve (2 marks)
- b) Graphically, demonstrate how IS curve can be derived (8 marks)
- c) The following data relate to a certain African country.

Item	Value
GNP	8,000,000
Depreciation	100,000
Indirect Business Taxes	80,000



Gross Investment	400,000
Total population	30,000
Consumption	10,000
Personal Income Taxes	800
Excise duty	80
Personal Income	89,000
Net factor incomes from abroad	200,000

Using the above data, calculate:

- i) Net National Product **(2 marks)**
- ii) GNP per capita **(2 marks)**
- iii) Net investment **(2 marks)**
- iv) Disposable personal income **(2 marks)**
- v) Gross domestic product **(2 marks)**

QUESTION THREE (20 MARKS)

- a) Explain four ways in which the government may remedy the chronic balance of payment deficit **(8 marks)**
- b) If the per capita income of a country has been growing over time, explain whether this reflects an improvement in the material well-being of the people. **(12 marks)**

QUESTION FOUR (20 MARKS)

- a) Discuss five tools of monetary policy used by the Central Bank of Kenya to regulate the money supply in country. **(10 marks)**
- b) Briefly discuss the concept of inflation and its causes in an economy **(10 marks)**

QUESTION FIVE (20 MARKS)

- a) Discuss any three macroeconomics objectives that can be pursued by Kenyan government. **(6 marks)**
- b) Using diagram, illustrate how income flow in an open economy involving all the economic agents **(8 marks)**
- c) With an aid of a diagram describe the J – curve phenomenon. **(6 marks)**

