KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR
FIRST YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 15th April, 2019

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Time: 11.00am – 1.00pm

KFI 101 – PRINCIPLES OF MACROECONOMICS THEORY

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTIONONE (COMPULSORY)AND ANYOTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

a)   Discuss the major concerns of Macroeconomics   (6 Marks)

b)   Briefly explain the meaning of the following terms as used in macroeconomics

      i)   Leakages and injections in the circular flow of income   (2 Marks)

      ii)   Marginal propensity to consume and average propensity to consume   (2 Marks)

      iii)   Nominal and real GDP   (2 Marks)

c)   State four policies that can be used to remedy unemployment   problem in an Economy.
                                                                                        (4 Marks)

d)   Explain three distinctive motives for holding money according to Keynes
                                                                                        (4 Marks)

e)   Given the following closed economy

$$Y = C + I_0 + G_0$$
$$C = c_0 + c_1(Y^d) \text{ where } c_0 > 0 \quad 0 < c_1 < 1$$
$$T = t_0 + t_1Y \quad t_0 > 0 \quad 0 < t_1 < 1$$
$$Y^d = Y - T \qquad \text{Where}$$

I_0 =investment, G_0 = Government purchase, T =Taxes, C= consumption Y =income, Y^d =disposable income

      i)   Find the equilibrium level of income   (6 Marks)

      ii)   Compute the investment multiplier and government expenditure multiplier.
                                                                                        (4 Marks)

QUESTION TWO (20 MARKS)

a)   According to the IS-LM model, what happens to interest rates, income, consumption and investment under

    i)   Central bank increases the money supply   (3 Marks)

    ii)   The government increases taxes   (3 Marks)

    iii)   The government increases government purchases   (3 Marks)

b)   Using a neatly drawn and labelled diagram, explain the concept of the circular flow of income and show where injection and leakages fall.   (11 Marks)

QUESTION THREE (20 MARKS)

a)   Elucidate the meaning of cost-push inflation and demand-pull inflation.   (4 Marks)

b)   Derive the IS-LM equations and state their importance in the study of macroeconomics.
            (6 Marks)

c)   Discuss the permanent income hypothesis and life cycle income hypothesis of consumption behavior.   (10 Marks)

QUESTION FOUR (20 MARKS)

a)   State and discuss three types of financial institutions   (6 Marks)

b)   Discuss the difficulties that are encountered when measuring national income   (8 Marks)

c)   The Kenya vision 2030 aims at achieving a double digit economic growth by the year 2030. Discuss the three pillars of the Kenya Vision 2030.   (6 Marks)

QUESTION FIVE (20 MARKS)

a)   Briefly explain determinants of investments   (6 Marks)

b)   Highlight and explain the remedies of inflation   (6 Marks)

c)   With reference to Kenya discuss factors that determine the size a country's National income.
            (8 Marks)