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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: 9th August, 2019

Time: 9.00 am – 11.00am

KFI 101 - PRINCIPLES OF MACROECONOMIC THEORY

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Explain briefly how macroeconomics is different from microeconomics. How can macroeconomists use microeconomic theory to guide them in their work, and why might they want to do so. **(4 Marks)**
- b) State and explain the difference between hyperinflation and galloping inflation. **(4 Marks)**
- c) The foreign sector is captured in the analysis of equilibrium through the balance of Payments. State and explain four items captured by the balance of payment Accounts. **(4 Marks)**
- d) Distinguish between a general equilibrium and a partial equilibrium and explain the necessary condition required for the goods market to be in equilibrium. **(6 Marks)**
- e) Given the following simple closed economy.
- $$Y = C + I + G$$
- $$C = 12 + 0.8(Y^d)$$
- $$Y^d = Y - T$$
- $$T = 5 + 0.2Y$$
- $$I = I_0$$
- $$G = G_0$$
- Where I_0 - investment, G_0 - Government purchase, T- Taxes, C - consumption Y- Income, Y^d -disposable income
- i. Calculate the equilibrium level of income. **(6 Marks)**
- ii. Compute and explain the investment multiplier and government expenditure multiplier. **(4 Marks)**
- f) Distinguish between narrow money and broad money. **(2 Marks)**

QUESTION TWO (20 MARKS)

The following table represents the incomes and expenditures of various sectors of the Kenyan economy in 2017.

	Billions of Ksh
Consumption	4,900
Investment	1,300
Transfer payments	1,050
Government expenditures	1,200
Exports	1,050
Imports	950
Net foreign factor income	20

- a) State and explain the National income model. **(2 Marks)**
- b) Compute the Kenya GDP in 2017. [show working] **(2 Marks)**
- c) Assuming the Kenyan population is 50 Million compute the 2017 per capita income **(2 Marks)**
- d) State and explain six reasons why the 2017 per capita income might not be a good measure of Kenyan's standards of living. **(6 Marks)**
- e) Distinguish between GDP and **GNP**. **(2 Marks)**
- f) State and explain three approaches that might have been used by Kenya National Bureau of Statistics in the estimation of the 2017 GDP. **(6 Marks)**

QUESTION THREE (20 MARKS)

- a) In each of the following cases, identify the type of unemployment. Explain policy measures that can be used to address each type. **(2 Marks)**
 - i) Maya just graduated from a top medical school and is currently deciding which hospital emergency room job she will accept. **(2 Marks)**
 - ii) Hector lost his job as an assembly line worker at Chrysler due to the recession. **(2 Marks)**
 - iii) Samantha, an advertising executive in Nairobi, quit her job one month ago to look for a more prestigious advertising job in Nairobi City. She is still looking for a job. **(2 Marks)**
 - iv) Yvonne got laid off from her job as a financial analyst 3 months ago and has not looked for a new job since then. **(2 Marks)**
 - v) William lost his job as a welder due to the introduction of robotic welding machines.
 - vi) Ruby quit her job as a hotel concierge to become a full-time student at a culinary school. **(2 Marks)**
- b) Define and derive the IS equation and the LM equations and present them on a graph

QUESTION FOUR (20 MARKS)

- a) With aid of a well labeled diagram discuss relative income hypothesis clearly showing the Ratchet effect. (7 Marks)
- b) Define inflation and list down three negative effects of inflation to the economy. (6Marks)
- c) Discuss the main tenets of the modern quantity theory of money as put forward by Friedman. (7 Marks)

QUESTION FIVE (20 MARKS)

- a) The GDP of any country can be divided into two kinds of goods: capital goods and consumption goods. The proportion of national output devoted to capital goods determines, to some extent, the nation's growth rate.
- i) Explain how capital accumulation leads to economic growth. (3 Marks)
- ii) Briefly describe how a market economy determines how much investment will be undertaken each period. (3 Marks)
- iii) Consumption versus investment is a more painful conflict to resolve for developing countries. Comment on that statement. (3 Marks)
- b) What is the exchange rate (this week) of the Kenya shilling against the following world common currencies (4 Marks)
- i) 1 US Dollar = _____Ksh
- ii) 1 Euro = _____Ksh
- iii) 1 Tanzanian Shilling = _____Ksh
- iv) 1 Uganda shilling = _____Ksh
- c) Explain how the above exchange rates are determined. (7 Marks)