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*(Knowledge for Development)*

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2019/2020 ACADEMIC YEAR**  
**MAIN EXAMINATION**

**COURSE CODE: ECO 121**

**FOR BACHELOR OF COMMERCE AND BACHELOR OF  
EDUCATION.**

**COURSE TITLE: INTRODUCTION TO MACROECONOMICS**

**DATE: 16<sup>TH</sup> NOVEMBER 2020      TIME: 2.00PM-4.00PM**

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**INSTRUCTIONS TO CANDIDATES**

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 Hours



KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.

## SECTION A (COMPULSORY)

### QUESTION ONE

a) Define the following terms as used in economics.

- i. Gross Domestic Product.
- ii. Net National product
- iii. Nominal national income.
- iv. Credit creation

(4 marks)

b) The Kenya National Bureau of Statistics have estimated that the country's marginal propensity to consume equals 0.6, investment in millions of shillings equals 2,000 , government spending 8,000 , autonomous consumptions 10,000 and net exports 1,000. Calculate the level of equilibrium of national income for this economy. (6 marks)

c) State four objectives of the monetary policy in a country (8rks)

d) Outline the main the causes of high external debt in developing countries like Kenya (10 marks)

## SECTION B

### QUESTION TWO

a) In the context of developing countries, suggest policy measures that could be adopted to combat unemployment. (10 marks)

b) Describe the role of commercial banks in an economy. (10 marks)

### QUESTION THREE

a) Define inflationary gap and explain it's the implications in an economy. (10 marks)

b) Specify what policies should be adopted by a country experiencing a high levels of inflation to bring it down. (10 marks.)



#### **QUESTION FOUR.**

- a) Describe the role of monetary policy in enhancing economic growth in a country like Kenya. **(10 marks)**
- b) Developing countries have experienced persistent inflation problem. Explain five causes of inflation in any given economy. **(10 marks)**

#### **QUESTION FIVE**

- a) Identify and briefly explain three approaches used in measuring the national income of a county. **(10 marks)**
- b) Explain FIVE causes of unemployment experienced in Kenya. **(10 marks)**