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KIBABII UNIVERSITY

**UNIVERSITY EXAMINATIONS
2020/2021 ACADEMIC YEAR
FIRST YEAR SECOND SEMESTER**

MAIN EXAMINATION

**FOR THE DEGREE OF BACHELOR OF COMMERCE, BCE, BBM AND
EDUCATION**

COURSE CODE: ECO121

COURSE TITLE: INTRODUCTION TO MACROECONOMICS

DATE: 21/07/2021 TIME: 2.00PM-4.00PM

INSTRUCTIONS TO CANDIDATES

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

TIME: 2 Hours

KIBUCO observes ZERO tolerance to examination cheating

This Paper Consists of 2 Printed Pages. Please Turn Over.

SECTION A (COMPULSORY)

QUESTION ONE

(a) Explain the meaning of the following terms as used in economics.

(i) "Quid Pro Quo". (3 Marks)

(ii) Ceteris peribus (2 Marks)

(iii) Leakages. (2 Marks)

(iv) Injections (2 Marks)

(v) Transfer payments (2 Marks)

(c) Using a well labelled diagram, illustrate the circular flow of income in a three-sector economy and discuss its four assumptions (8 Marks)

(d) Discuss FOUR weaknesses inherent in the study of macroeconomics. (8 marks)

(e) State THREE ways by in Covid -19 has undermined Kenya's economy (3 marks).

SECTION B (CHOOSE ANY TWO QUESTIONS)

QUESTION TWO

(a) Consider the following consumption function.

$$C=900+0.65Y$$

(i) Define and plot the consumption function. (4 Marks)

(ii) Define and explain what 300 represents. (4 Marks)

(iii) What does 0.65 represent? (2 marks)

- (b) The Kenyan economy has been recording a positive and an increasing trend in its economic growth from 2017 to date , explain whether this reflects an improvement in the material well being of its people. (10 Marks)

QUESTION THREE

- (a) Clearly explain the expenditure approach of computing national income and explain FOUR problems associated with it. (8 Marks)
- (b) Explain any three types of inflation. (6 Marks)
- (c) State determinants of the amount of money held for transaction purposes. (6 Marks)

QUESTION FOUR

- (a). Describe four roles of commercial banks in an economy. (8 Marks)
- (b) Discuss FOUR ways of alleviating the unemployment problems in developing economies. (8 Marks)
- (c) Distinguish between Gross Domestic Product and Net National Product. (4 marks)

QUESTION FIVE

- (a) Differentiate between monetary and fiscal policy. (4 Marks)
- (b) What is meant by the term balance of payments? (3 Marks)
- (c) Discuss FOUR problems experienced by a country with a balance of payment deficit. (8 Marks)
- (d) State FIVE benefits of inflation to the economy of a country. (5 marks)