



*(Knowledge for Development)*

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2020/2021 ACADEMIC YEAR**

**FIRST YEAR 2<sup>ND</sup> SEMESTER**  
**MAIN EXAMINATIONS**

**FOR THE DEGREE OF BACHELOR OF SCIENCE IN AGRICULTURAL  
ECONOMICS & RESOURCE MANAGEMENT**

**COURSE CODE:** AEC 124

**COURSE TITLE:** PRINCIPLES OF MACROECONOMICS

**DATE:** 14<sup>TH</sup> JULY 2021

**TIME:** 9AM – 11 AM

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**INSTRUCTIONS TO CANDIDATES**

Answer Question One and any other two (2) Questions.

TIME: 2 Hours

This paper consists of 2 printed pages. Please Turn Over



KIBU observes ZERO tolerance to examination cheating

Q1.

- a) Consider an economy in which only three items are in the CPI: Food, housing and entertainment. Assume in the base period as (1987) and the household consumed the following quantities at the then prevailing prices.

| Item          | quantity | Price(Ksh.) | Expenditure(Ksh.) |
|---------------|----------|-------------|-------------------|
| food          | 5        | 14          | 70                |
| housing       | 3        | 10          | 30                |
| entertainment | 4        | 5           | 20                |
| Total         |          |             | 120               |

**Required**

- i) Define consumer price index(CPI) **4 Marks**
- ii) Calculate the CPI for 1994 if the prices prevailing in 1994 are as follows: food Ksh.30 per unit, housing Ksh. 20 per unit and entertainment Ksh. 6 per unit. **4 Marks**
- iii) Calculate the inflation rate **2 Marks**
- b) Given  $C=20+ 0.4Y^d$ ,  $Y^d=Y-T$ ,  $I=45$ ,  $G=40$ ,  $T=15+0.6Y$ ,  $X= 30$ ,  $M=25+0.2Y$ , Calculate the following and interpret your results;-
- i) Equilibrium income **(4 Marks)**
- ii) Equilibrium consumption **(4 Marks)**
- iii) Government spending multiplier **(4 Marks)**
- iv) Tax multiplier **(4 Marks)**
- v) Import multiplier **(2 Marks)**
- vi) The level of savings **(2 Marks)**

**Q2.**

Explain the methods of computing national income account, taking precaution of the necessary adjustments in each case. **(20 marks)**

**Q3.**

Examine the costs of unemployment **(20 marks)**

**Q4.**

a) Discuss five monetary policy instruments used to regulate money supply in Kenya **(10 marks)**

b) Explain the IS-LM Equilibrium model **(10 marks)**

**Q5.**

a) Explain any Five international trade protectionism policies in Kenya **(10 marks)**

b) With the aid of a well labeled diagram, explain the relationship between inflation rate and unemployment **(10 marks)**