



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF MANAGEMENT SCIENCE

UNIVERSITY EXAMINATION FOR DEGREE IN:

BACHELOR OF COMMERCE, BACHELOR OF BUSINESS ADMINISTRATION & BACHELOR
OF BUSINESS AND OFFICE MANAGEMENT

BFI 4103: INTRODUCTION TO MACROECONOMICS

END OF SEMESTER EXAMINATION

SERIES: SEPT. 2017

TIME: 2

HOURS

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of **FIVE** questions. Attempt question **One(Compulsary)** and any other **TWO** questions.

Do not write on the question paper. **This Paper consists of Two printed pages**

Question ONE(Compulsary)

(30 MARKS)

- (a) Given below is national income equation for a hypothetical economy, $Y=C + I + G + X - M$ where, Consumption(C) = \$ 16400 , Investment (I) = \$1400 , Government spending (G) = \$2000 ,Exports(X) = \$1500 , Imports (M) = \$2500 ,Tax (T) = 0.25Y.

From the above information compute

- i. National Income **(3 marks)**
 - ii. Disposable income **(3marks)**
 - iii. Trade balance position and explain the position **(4 marks)**
- b) Write short notes on the following terms as used in macroeconomics
- i. disposable income **(2 marks)**
 - ii. Balance of Payment **(2 marks)**
 - iii. Balance of trade **(2 marks)**

- iv. Current account (2 marks)
- v. Capital Account (2 marks)
- c) Discuss the Major Goals of Macroeconomic Policy (10 marks)

Question TWO (20 MARKS)

- (a) Explain the lifecycle hypothesis of consumption; compare the major differences of this hypothesis with the permanent income hypothesis of consumption. (12 marks)
- (b) Examine four determinants of consumption (8 marks)

Question THREE (20 MARKS)

- (a) Briefly explain through the use of short notes the distinctive motives for holding money according to Keynes (10 marks)
- (b) Using graphical illustration explain the effects of money supply on interest rate (10 marks)

Question FOUR (20 MARKS)

- (a) Differentiate between the following as used in foreign exchange market
 - (i) Exchange rate and terms of trade (4 marks)
 - (ii) Depreciation and Devaluation of domestic currency (4 marks)
 - (iii) Revaluation and Appreciation of Domestic currency (4 marks)
- (b) Discuss the methods used by most countries in an attempt to correct trade deficit (8 marks)

Question FIVE (20 MARKS)

- (a) Most of the developing countries are faced with the problem of unemployment. Discuss the major causes of unemployment in Kenya (10 marks)
- (b) Explain the policies that developing countries adapt to cure the problem of unemployment (10 marks)