TECHNICAL UNIVERSITY OF MOMBASA
SCHOOL OF BUSINESS

DEPARTMENT OF MANAGEMENT SCIENCE

UNIVERSITY EXAMINATIONS 2016/2017

FIRST YEAR SECOND SEMESTER EXAMINATIONS FOR BACHELOR OF

COMMERCE AND BACHELOR OF BUSINESS ADMINISTRATION

BFI 4103: INTRODUCTION TO MACROECONOMICS

END OF SEMESTER EXAMINATIONS
SERIES: DECEMBER 2016
TIME: 2 HOURS

INSTRUCTIONS:

1. Answer Question **ONE (Compulsory)** and any other **TWO** questions.
2. Question one carries 30 marks
3. Other questions carry 20 marks each.
4. Marks will be awarded to students who demonstrate accuracy and clarity of presentation.
5. Calculators are allowed in the examination room

QUESTION ONE (COMPULSORY)

a) Distinguish between the following macroeconomic concepts;

   i.   Equilibrium and disequilibrium. (2 marks)

   ii. Gross Domestic Product (GDP) and Gross National Product (GNP) (2 marks)

   iii. Static and dynamic multiplier (2 marks)

b) Distinguish between micro and macroeconomics. (6 marks)

c) List four properties of absolute income hypothesis. (4 marks)

d) An economy is represented as follows:

$$Y = C + I + G$$

$$Y^d = Y - T + R - U - X$$

$$T = -43 + 0.302Y$$

$$U = -75 + 0.15Y$$

$$X = 31$$

$C = 4 + 0.95Y^d$ Where Y= gross national product, T=Taxes, R=transfers, U= undistributed profits, Yd= Disposable income, I= Investment, G= government spending, X= other items, the magnitude of which are independent of Y and which must be subtracted from Y to obtain Yd.

   i.   Determine the multiplier applicable to G, R and I. (11 marks)
   ii. If G, R and I changes by Sh. 20, Sh. 40 and Sh. 20 respectively. What will be the change in gross national product? (3 marks)

QUESTION TWO

a) Inflation and unemployment are macroeconomic variables affecting the growth and development of many economies. Explain the relationship between inflation and unemployment (8 marks)

b) Given the consumption function of the following form:- $C = a + bY$,Where: $C =$ Consumption, $a, b =$ Constants and Y= income. Define a, b and bY. (6 marks)

c) Discuss any three importance of national income estimates (6 marks)

QUESTION THREE

a) Basing your argument on the British economist John Maynard Keynes view, with appropriate diagrams describe the demand for money   (14 marks).

b) Explain the various postulates for the Classical theory of output and employment as outlined by the Classical economists.   (6 marks)

QUESTION FOUR

a) Discuss the effect of an expansionary fiscal policy on economic growth and advice whether the policy is appropriate in achieving the objective of economic growth. (illustrate with appropriate diagrams)   (12 marks)

b) Critically examine Say's law in the context of both a barter system and a monetized economic system   (8 marks)

QUESTION FIVE

a) Given the following specifications for an economy where C- consumption, I- investment, G- government expenditure. T- Tax, r-interest rate, M^d-Money demand, M^s-Money supply such that; $C = 200 + 0.75Y^d$, $I = 200 - 25r$, $G = 200$, $T = 200$, $M^d = 0.5Y - 100r$, $M^s = 450$.Derive the IS and LM equation and find the equilibrium level of income and interest rate   (10 marks).

b) Discuss the various types of monetary policy instruments used by the Central Bank for purposes of macroeconomic stabilization   (10 marks)