



TECHNICAL UNIVERSITY OF MOMBASA

Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

DIPLOMA IN PROCUREMENT AND MATERIALS MANAGEMENT I
DIPLOMA IN HUMAN RESOURCE MANAGEMENT I
DIPLOMA IN BUSINESS ADMINISTRATION I
DIPLOMA IN BUSINESS MANAGEMENT I
DIPLOMA IN ACCOUNTANCY I

BAC 2105 : MACRO ECONOMICS

END OF SEMESTER EXAMINATIONS

SERIES: AUGUST 2013

TIME: 2 HOURS

INSTRUCTIONS:

- This paper consists of **FIVE** questions.
- Answer question **ONE (Compulsory)** and any other **TWO** questions.

This paper consists of Two printed pages.

QUESTION 1 (Compulsory)

- a) Inflation affects the economy of a country both positively and negatively. Explain the positive effects of inflation on the economy. **(10marks)**
- b) Monetary policies are policies that are taken by the government in order to control the economy activities in a country. Explain five monetary policy tools used by the government. **(10marks)**
- c) Deduce the equilibrium position of national income assuming that the economy participates in international trade. **(5marks)**
 - ii) Given that autonomous consumption was sh. 270 million induced expenditure was 0.8, investments were Ksh. 150m while the government spending was ksh. 60. Find the equilibrium National income. **(5marks)**

QUESTION 2

- a) Explain FIVE ways of closing deflationary gaps in the economy. **(10marks)**
- b) Define public finance and explain the main functions of public finance. **(10marks)**

QUESTION 3

- a) Kenya has a high unemployment ratio in the country. What policies would you advise the government to take in order to control this unemployment. **(10marks)**
- b) Explain factors that contribute to the long run trend in the terms of trade of developing countries. **(10marks)**

QUESTION 4

- a) Protection is the theory of comparative advantage that advocates the gains from free trade and restricts free flow of goods and services internationally. What are the advantages of protectionism. **(10marks)**
- b) Development planning is essential in developed world, like Kenya. Why do we need development planning. **(10marks)**

QUESTION 5

- a) Discuss the role of foreign aid Kenya. **(10marks)**
- b) Every country in the world has a central bank. Explain the main roles of these banks. **(10marks)**