



AFRICAN INTERNATIONAL COLLEGE IN COLLABORATION WITH EGERTON UNIVERSITY

SECOND SEMESTER 2013/2014 ACADEMIC YEAR

FIRST YEAR EXAMINATION FOR THE AWARD OF THE DEGREE OF BACHELOR OF COMMERCE

BCOM 103: PRINCIPLES OF MACROECONOMICS

STREAM: Y1 BCOM

TIME: 2 HOURS

DAY: MONDAY, 8.00 – 10.00 A.M.

DATE: 05/08/2013

INSTRUCTIONS:

SECTION 1: Question 1 is COMPULSORY SECTION 2: Answer ANY TWO questions.

QUESTION ONE:

(a) Elucidate the following terms:

- (i) Scarcity
- (ii) Microeconomics
- (iii) Macroeconomics
- (iv) Inflation and deflation

(5 marks)

(b) Explain the term unemployment.

(2 marks)

(i) Discuss the main causes of unemployment. (7 marks)

(ii) Suggest the possible measures that you would implement to contain unemployment problems in your country. (8 marks)

(c) Why is it important to estimate National Income of a country? What difficulties do economists encounter while carrying out such a task particularly in developing countries?

(8 marks)

(Total: 30 Marks)

SECTION 2:

QUESTION TWO:

- (a) Assume the following information represents the National Income Model of an ‘Utopian’ economy:

$$Y = C + I + G$$

$$C = a + b (Y - T)$$

$$I = I_0$$

$$G = G_0$$

Where:

$$a > 0; 0 < b < 1$$

$$d > 0; 0 < t < 1$$

T = Taxes

I = Investment

G = Government Expenditure

- (i) Explain the economic interpretation of the parameters a, b, d and t. (4 marks)
- (ii) Find the equilibrium values of income, consumption and taxes. (8 marks)
- (b) Discuss the three approaches used in measuring the national income of a country and show why they give the same estimate. (8 marks)

(Total: 20 marks)

QUESTION THREE:

- (a) You are given the following information about the commodity and Money

The commodity market

Consumption function:

$$C = 50 + 2/5Y$$

Investment function:

$$I = 790 - 21r$$

The money Market

Precautionary and Transactions demand for money

$$M_{DT} = 1/6Y$$

Speculative demand for money

$$M_{DS} = 1200 - 18r$$

Money supply

$$M_S = 1250$$

Required:

- (i) Determine the equilibrium levels of income and interest rate for this economy. (8 marks)
- (ii) Using a well labelled diagram, illustrate the I-LM Equilibrium. (4 marks)
- (b) A central bank is largely referred by economists as the bank at the apex with monetary authority. Clearly explain the major functions of a central bank. (8 marks)

(Total: 20 Marks)

QUESTION FOUR:

- (a) Explain the term inflation. (2 marks)
- (b) What are the major causes of inflation? (10 marks)
- (c) Explain the economic effects of a high rate of inflation. (8 marks)

(Total: 20 Marks)
