

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**FIRST YEAR EXAMINATION FOR THE AWARD OF
DEGREE IN BACHELOR OF ENTREPRENEURSHIP
PURCHASING AND SUPPLIES**

BBAM 103: PRINCIPLES OF MACRO-ECONOMICS

STREAM: BBAM (Y1S2)

TIME: 2 HOURS

DAY/DATE: TUESDAY 6/8/2013

8.30 A.M. – 10.30 A.M.

INSTRUCTIONS

ANSWER QUESTIO ONE AND ANY OTHER TWO QUESTIONS

DO NOT WRITE ON THE QUESTION PAPER

1. (a) The following information is provided for a certain economy.

$C = 100 + 0.1Y$ – Consumption function

$I = 70 - 10r$ – Investment function

$G = 200$ – Government expenditure

$X = 320$ – Exports

$T = 30 + 0.2 y$ – Tax function

$M = 20 + 0.4y$ – Import function

$M^d = 0.4Y - 0.1 r$ – Money demand function

$M^s = 400$ – Money supply

Required:

- (i) Explain the meaning of IS and LM curves. [2 marks]
- (ii) Derive the IS and LM equations. [6 marks]
- (iii) Calculate the equilibrium income and interest rate. [4 marks]
- (iv) Determine the equilibrium consumption [3 marks]
- (b) Explain the main uses in measuring National income. [6 marks]
- (c) Discuss the main determinants of investment. [9 marks]
2. (a) Using a well labeled diagram describe the circular flow of income in an open economy. [10 marks]
- (b) Explain the features of prosperity phase of business cycle. [10 marks]
3. (a) Distinguish between the demand pull inflation and cost push inflation, explaining clearly the main causes of each. [13 marks]
- (b) Explain the cures of unemployment in Kenya. [7 marks]
4. (a) Distinguish using well labeled diagram between the flexible exchange rate regime and fixed exchange rate regime. [10 marks]
- (b) What are the cures of inflation in Kenya. [10 marks]
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