

CHUKA



UNIVERSITY

COLLEGE

UNIVERSITY EXAMINATIONS

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

BCOM 103: PRINCIPLES OF MACROECONOMICS

STREAMS: B.COM Y1S2

TIME: 2 HOURS

DAY/DATE: THURSDAY 2/8/2012

2.30 P.M. - 4.30 P.M.

INSTRUCTIONS:

Answer question One and any other two questions.
Do not write on the questions paper.

1. (a) You are given the following Model

$$\begin{aligned} C &= a + bY^d \\ T &= T + tY \\ G_T &= a_T \\ X &= X_o \\ M &= M_o + M_1 Y \end{aligned}$$

Assuming a four sector economy

- (i) Specify the endogenous and exogenous variables. [4 marks]
- (ii) Find equilibrium level of national income. [6 marks]
- (iii) Find the foreign trade multiplier [5 marks]

(b) Developing countries are faced with the problem of unemployment.

- (i) Describe any four forms of unemployment common in these countries. [4 marks]
- (ii) What are the causes of unemployment in your country? [6 marks]
- (iii) Suggest the policies that can be adopted to mitigate unemployment problem. [5 marks]

2. (a) Explain the different kinds of money available in the modern economy. [3 marks]
- (b) Explain the motives for holding money in Keynesian Model. [3 marks]
- (c) Explain the basic functions of money. [4 marks]
- (d) Discuss the significance of money in modern society. [10 marks]
3. (a) Write notes on the following:
- (i) Autonomous and induced investment [4 marks]
- (ii) Marginal efficiency of capital and marginal efficiency of investment. [4 marks]
- (b) Explain why per capita income is not a good measure of material well being of the people. [6 marks]
- (c) What are the factors that influence household consumption apart from income? [6 marks]
4. Discuss the effects of inflation on different sections of the economy. [20 marks]
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