

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**FIRST YEAR EXAMINATION FOR THE AWARD OF DIPLOMA IN BUSINESS
MANAGEMENT**

DIBM 0132: PRINCIPLES OF MACROECONOMICS

STREAMS: DIP. IN BUSINESS MANAGEMENT Y1S2

TIME: 2 HOURS

DAY/DATE: THURSDAY 07/07/2016

2.30 P.M. – 4.30 P.M.

INSTRUCTIONS:

- **ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS.**

QUESTION ONE. (30 MARKS)

- Discuss the tools of macroeconomics. (2 marks)
- Discuss 2 reasons why national income is not a good measure of social welfare? (4 marks)
- Differentiate between a fixed and a flexible exchange rate. (2 marks)
- Discuss 3 determinants of investment. (6 marks)
- Discuss the Keynesian theory of money demand. (6 marks)
- Outline the phases of business cycles. (8 marks)
- Distinguish between personal income and personal disposal income. (2 marks)

QUESTION TWO.

- By use of a diagram, explain the simple circular flow of income. (6 marks)

- (b) Briefly explain the 3 approaches used in measurement of national income. (6 marks)
- c) Explain 3 forms of inflation. (3 marks)
- d) By use of a diagram explain the causes of cost push inflation. (5 marks)

QUESTION THREE.

- a) Discuss 5 types of unemployment. (10 marks)
- b) What are the major causes of unemployment in Kenya and how can unemployment be curbed? (10 marks)

QUESTION FOUR.

- a) What is a balance of payments? List at least two components of a balance of payment. (3 marks)
 - b) Discuss 2 factors that cause the balance of payment curve to shift. (4 marks)
 - c) Discuss the following tools of monetary policy; (6 marks)
 - i. Discount rate
 - ii. Margin requirement
 - iii. Open market operations
 - d) Explain the 4 major functions of money in an economy. (4 marks)
 - e) List the assumptions of the absolute advantage theory of international trade. (3 marks)
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