



EMBU UNIVERSITY COLLEGE
(A Constituent College of the University of Nairobi)

2015/2016 ACADEMIC YEAR

SECOND SEMESTER EXAMINATIONS

**FIRST YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF
BACHELOR OF ECONOMICS AND BACHELOR OF COMMERCE**

DFI 203/XET 102: INTRODUCTION TO MACROECONOMICS

DATE: APRIL 11, 2016

TIME: 02:00-04:00

INSTRUCTIONS:

Answer Question ONE and ANY Other TWO Questions.

QUESTION ONE :

- a) Define national income and provide four reasons for measuring it. (5 marks)
- b) Distinguish between Gross Domestic Product (GDP) and Gross National Product (GNP) and explain which is likely to be lower in developing countries, giving reasons. (4 marks)
- c) The following table gives the market value of economic transactions in your country by sector:

SECTOR	VALUE OF OUTPUT	PURCHASES FROM OTHER FIRMS
Agriculture	200	60
Manufacturing	150	100
Services	100	70

Required:

- i) Compute the gross domestic product (GDP) at market prices and explain the method used (2 marks)
- ii) Given that depreciation = 80, indirect taxes = 60, subsidies = 20, factor payments from abroad = 10, and payments to foreign factors of production = 30

Compute:

1. Gross National Product (GNP) at market prices. (1 mark)
2. Net National Product (NNP) at market prices. (1 mark)
3. Net National Product (NNP) at factor cost. (1 mark)
4. Net Domestic Product (NDP) at factor cost. (1 mark)
- d) Define money and explain its functions in a modern economy. (5 marks)
- e) Why do developing countries impose tariffs on imports? (5 marks)
- f) With the aid of a diagram explain the circular flow of income and indicate the circumstances under which it may be enhanced or reduced. (5 marks)

QUESTION TWO:

- a) Distinguish between demand-pull and cost push inflation clearly indicating the causes of each type. (8 marks)
- b) Why is it important to classify inflation into demand-pull and cost-push inflation? (4 marks)
- c) Inflation is always undesirable in an economy". Discuss. (8 marks)
- d) Define fiscal policy and explain how it may be used to combat inflation. (4 marks)

QUESTION THREE:

- a) Explain Fisher's quantity theory of money and indicate its importance in economics. (8 marks)
- b) Define monetary policy and explain four major instruments used in its execution. (9 marks)

- c) In an economy 60 transactions with a market value of \$300 were undertaken. The money supply was \$100. Explain how this was possible. (3 marks)

QUESTION FOUR:

- a) Define unemployment and explain why it is considered harmful to an economy. (7 marks)
- b) Explain six main types of unemployment clearly indicating their causes and briefly suggest ways of minimizing the problem in each case. (13 marks)

QUESTION FIVE:

You are given the following data in billions of dollars on your country's economy:

Investment = 90, Government spending = 70, net exports = 40,
autonomous consumption = 100, marginal propensity to save = 0.20.

Required:

- a) Compute the consumption and savings functions and indicate the assumptions made. (4 marks)
- b) Determine the equilibrium level of income. (4 marks)
- c) Compute the equilibrium level of consumption and savings. (2 marks)
- d) Define and compute the multiplier. (2 marks)
- e) Suppose the full employment level of income is 2,000. Would this economy be facing an inflationary or deflationary gap and why? What is the magnitude of the gap and what should the government do to remove it? (4 marks)
- f) The government provides investment incentives and investment rises by \$30 billion. Compute the equilibrium level of income and explain why equilibrium has or has not changed from the previous level. (4 marks)

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