

KENYA METHODIST UNIVERSITY

**END OF 3RD TRIMESTER 2017 (FT) EXAMINATIONS**

**SCHOOL : BUSINESS AND ECONOMICS**

**DEPARTMENT : ACCOUNTING FINANCE AND INVESTMENTS**

**COURSE CODE : ECON 102**

**COURSE TITLE : PRINCIPLES OF MACROECONOMICS**

**TIME : 2 HOURS**

**INSTRUCTIONS**

* **Answer Question One and any other Two Questions.**

**Question One (30 Marks)**

1. Define the term macro-economics and explain the importance of macro-economics in an economic analysis. (4 Marks)
2. List and explain different methods of estimating national income of a country and state some of the problems which are experienced in computing national income. (9 Marks)

Use the table below for question c, d, & e:

 Disposable Consumption

 Income Spending

 (Ksh. Billions) (Ksh. Billions)

 $   0 $  150

 200 280

 400 410

 600 540

 800 670

 1000 800

 1200 1,180

1. Determine autonomous consumption spending for this economy (2 Marks)
2. What is the consumption function for this economy? (5 Marks)
3. If income is 6,000 what is the expected consumption. (4 Marks)
4. What are the effects of government borrowing on the economy? (6 Marks)

**Question Two (20 Marks)**

1. Outline the functions of CBK (5 Marks)
2. Identify the three key monetary policy tools of CBK and **how they are adjusted** to increase the money supply (9 Marks)
3. Discuss the factors that hinder the effectiveness of monetary policy in less developed countries (6 Marks)

**Question Three (20 Marks)**

1. “Unemployment is one of the major economic problems facing most developing countries.” Explain the major causes of unemployment.

(8 Marks)

1. What are the problems associated with unemployment? (4 Marks)
2. Suggest some possible economic policies that developing countries can adopt and implement in order to reduce unemployment. (8 Marks)

**Question Four (20 Marks)**

Use the following balance sheet for a Jamii bank to answer the next two questions

|  |  |
| --- | --- |
| Assets | Liabilities |
| Reserves | Sh. 400,000 | Checking Deposits | Sh. 1,000,000 |
| Loans outstanding | Sh. 600,000 |  |  |
| Total | Sh. 1,000,000 | Total | Sh. 1,000,000 |

1. Jamii Bank is fully loaned up. What is the reserve requirement? (4 Marks)
2. Assume that Jamii Bank is the only bank in the economy and the banking system is closed to foreign banks. The reserve requirement is 40% and an additional Sh. 100,000 is deposited. To what point can the bank expand its total deposits? (8 Marks)
3. Although the required reserve ratio is a tool of monetary policy, why is it not frequently used? (8 Marks)

**Question Five (20 Marks)**

1. Distinguish between economic growth and economic development (4 Marks)
2. Explain factors that contribute to low economic growth rates in most developing countries (8 Marks)
3. Suggest policy measures that may be implemented in an attempt to combat poverty in developing countries. (8 Marks)