

KENYA METHODIST UNIVERSITY

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

**SCHOOL : BUSINESS AND ECONOMICS**

**DEPARTMENT : ACCOUNTING FINANCE AND INVESTMENTS**

**UNIT CODE : ECON 102**

**UNIT TITLE : PRINCIPLES OF MACROECONOMICS**

**TIME : 2 HOURS**

**INSTRUCTIONS**

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

**Question One (30 Marks)**

1. State and explain four uses of national income statistics. (8 Marks)
2. What are the effects of government borrowing on the economy? (6 Marks)

Use the following diagram to answer the questions below

C

C

Consumption

400

5000

45°

Aggregate output

1. What is the level of autonomous consumption? (2 Marks)
2. When income is 5,000 what is the level of consumption and savings?

(4 Marks)

1. What is the equation for this consumption function? (6 Marks)
2. If income is 6,000 what is consumption? (4 Marks)

**Question Two (20 Marks)**

1. Using a well labeled diagram, describe the behavior of the business cycle. (6 Marks)
2. What is the main goal of government economic policy in reference to the business cycle? (6 Marks)
3. Name and describe four strategies for economic development (8 Marks)

**Question Three (20 Marks)**

1. What is meant by the government’s internal and external borrowing? Explain three reasons why a government may prefer internal borrowing to external borrowing as a means of deficit financing. (10 Marks)
2. Examine the economic consequences of a country engaging in a war with a neighboring country. (10 Marks)

**Question Four (20 Marks)**

1. What is meant by credit inflation (4 Marks)
2. What are the major causes of inflation? (6 Marks)
3. Explain the **ECONOMIC** problems that arise from a high rate of inflation. (10 Marks)

**Question Five (20 Marks)**

1. Adam Smith provided a frame work for evaluating the goodness or badness of tax referred to as canons or principles of tax. Discuss these principles giving local examples. (10 Marks)
2. Giving relevant examples, explain measures that Kenya Government may take to attract foreign investment in the country. (10 Marks)