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**KENYA METHODIST UNIVERSITY**

**END OF 1ST TRIMESTER 2017 (FT) EXAMINATIONS**

**SCHOOL : BUSINESS AND ECONOMICS**

**DEPARTMENT : FINANCE, ACCOUNTING & 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 between the terms GDP and GNP.
2. List and explain different methods of estimating national income of a country and state some of the problems which are being experienced in computing national income.
3. A Narok farmer produces 2000 bushels of wheat which he sells to a miller for Sh. 20 a bushel. The farmer receives a payment of Sh.\_\_\_\_\_\_\_\_\_\_\_\_\_\_ from the miller. The value added by the farmer is Sh. \_\_\_\_\_\_\_\_\_\_\_\_\_. The miller grinds the wheat into flour. She makes 1200kgs of flour, which she sells to a baker for Sh.40 per kg. The miller receives the payment of Sh.\_\_\_\_\_\_\_\_\_\_\_\_ from the baker. The value added by the miller is Sh.\_\_\_\_\_\_\_\_\_\_\_\_\_. The baker bakes the flour into 1000 loaves which he sells for Sh. 50 apiece to the food distributor. The baker receives a payment of Sh.\_\_\_\_\_\_\_\_\_\_\_\_\_ from the distributor. The value added by the baker is Sh.\_\_\_\_\_\_\_\_\_\_\_\_\_. The distributor sells 200 loaves to a local restaurant for Sh. 100 each. The remainders are sold to grocery stores at Sh. 80 each. The distributor receives payment totaling Sh. \_\_\_\_\_\_\_\_\_\_\_\_\_\_. The value added by the distributor is Sh.\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. At the retail level, the restaurant sells 180 loaves at Sh. 150 each. 20 loaves are unsold and must be discarded. The grocery store sells all of their consignment for Sh. 100. The retailers receive payment totaling Sh. \_\_\_\_\_\_\_\_\_\_\_\_. The value added by the retailers is Sh. \_\_\_\_\_\_\_\_\_\_\_\_\_. The total value added by all the participants in the production process is Sh. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**Question Two - (20 Marks)**

Use the following diagram to answer the questions below

C

C

Consumption

800

4000

45°

Aggregate output

1. When income is 4,000 what is the level of consumption and savings?
2. What is the equation for this consumption function?
3. If income is 6,000 what is consumption?

**Question Three - (20 Marks)**

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

**Question Four - (20 Marks)**

1. Given the following data in millions of shillings pertaining to an economy, determine Net National and Gross National Product Values. (10 marks)

National income 3,387

Indirect business taxes (less subsidies) 366

Depreciation 455

1. “Unemployment is one of the major economic problems facing most developing countries”. Explain the major causes and suggest some possible economic policies that these countries could adopt and implement in order to reduce it. (10 marks)

**Question Five**

1. What is meant by inflation
2. What are the major causes of inflation?
3. Explain the **ECONOMIC** problems that arise from a high rate of inflation.