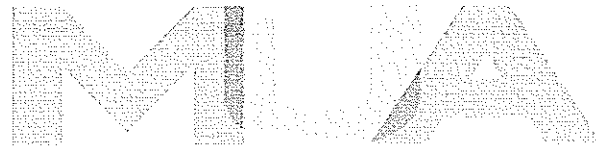## The Management University of Africa

Sponsored by the Kenya Institute of Management

UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

BCM 123 :   MACRO-ECONOMICS

DATE: 9TH APRIL 2019

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. DO NOT write on this question paper.
3. This paper contains SIX (6) questions.
4. Question ONE is compulsory.
5. Answer any other THREE questions.
6. Question ONE carries 25 MARKS and the rest carry 15 MARKS each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Kenya's economy has been bedeviled by a number of challenges in the recent past that include increased unemployment, persistent increase in the price level souring debt levels, food shortages, political unrest ,food shortage occasioned by the persistent drought and among others. In an effort to bring the situation under control, the Government of the republic of Kenya has initiated a number of measures among them control of interest rates, price control, tightening leakages in government revenue and providing fiancé and other support for youth entrepreneurship . As the government chief economist, advice the government on the following;

Required:

a) Adverse effects of increased Government borrowing on the economy

(6 Marks)

b) The three consequences of persistent increase in interest rates

(6 Marks)

c) Any other five measures of combating unemployment apart from youth entrepreneurship   (10 Marks)

d) The limitations price control as a measure for controlling inflation

(3 Marks)

QUESTION TWO

a) Explain three motives of holding money   (6 Marks)

b) Distinguish the following terminologies as used in macro-economics

i)   Average propensity to consume and Average propensity to save

(3 Marks)

ii]   Induced investment and autonomous investment   (3 Marks)

iii]   Multiplier and accelerator   (3 Marks)

QUESTION THREE

a) Explain the term "credit creation" as used in banking   (3Marks)

b) Examine any six functions of commercial banks in your country

(12Marks)

QUESTION FOUR

a) There is widespread unemployment amongst the youth in developing countries. Discuss any four causes of this   (3 Marks)

b) Define inflation?   (1 Mark)

c) Explain three approaches used in the measurement of national income

(6 Marks)

QUESTION FIVE

a) Define the term Liquidity trap   (1 Mark)

b) Evaluate any four goals of macro-economic policy objectives under public finance   (8 Marks)

c) Despite the arguments of the "classical" theory of free trade, the twentieth century has seen the gradual movement away from free trade, with governments increasingly imposing restrictions on trade and capital flows. Examine any three arguments in favour of Protectionism   (6 Marks)

QUESTION SIX

(a)   Assume the following information represents the National Income model of an 'Utopian' economy.

$$Y = C + I + G$$
$$C = a + b (Y - T)$$
$$T = d + tY$$

$$I = I_0$$

$$G = G_0$$

Where $a > 0; 0 < b < 1$

$$d > 0; 0 < t < 1$$

$$T = \text{Taxes}$$

$$I = \text{Investment}$$

$$G = \text{Government Expenditure}$$

(i) Explain the economic interpretation of the parameters a, b, d, and t.

(4 marks)

(ii) Find the equilibrium values of income consumption and taxes

(11 Marks)