



# **GRETSA UNIVERSITY - THIKA**

## **UNIVERSITY EXAMINATIONS SEPTEMBER - DECEMBER 2021 SEMESTER**

### **BACHELOR OF COMMERCE**

**COURSE CODE: ECON101**

**COURSE TITLE: PRINCIPLES OF MACROECONOMICS**

**DATE:**

**TIME:**

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#### **INSTRUCTIONS TO CANDIDATES**

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

**CAUTION:** *All exam rooms are under CCTV surveillance during the examination period.*

## SECTION A: COMPULSORY

### Question One

- a) Kenya, which is currently ranked as a developing country, came up with an economic blueprint geared towards realising economic development by year 2030.

Required

- i) Describe the factors that might hinder Kenya from realising the above objective **[10 marks]**
- ii) Outline the measures that might be put in place in order to overcome the impediments in the above question (i) **[6 mark]**
- iii) Discuss the ratchet effect in consumption **[10 marks]**

- b) You are given the following information for ABC Economy:

$$C = a + bY^D$$

$$T = T_o + tY$$

$$I = I_o - kr$$

$$G = G_o$$

$$X = X$$

$$M = M_o + mY$$

Required:

- (i) Calculate the equilibrium national income **[ 4 marks]**
- (ii) Suppose the government spending increases by 400, find the Government Spending Multiplier **[3 marks]**
- (iii) Calculate Equilibrium Consumption **[3 marks]**
- (iv) Calculate Equilibrium Tax **[2 marks]**
- (v) Calculate Equilibrium Import **[2 marks]**

## SECTION B: ANSWER ANY THREE QUESTIONS

### Question Two

- a) Discuss the ways in which the government could reduce a disequilibrium in the balance of payments **[10 marks]**

- b) Explain five items that are on the current account of the balance of trade  
[10 marks]

**Question three**

- a) Discuss the advantages of currency devaluation to a country's economy  
b) Discuss the fiscal policy measures that can be used to reduce an inflationary gap of a developing nation

[10 marks]

**Question Four**

- a) Discuss the how economic rent might be used as a base for taxation

[6 marks]

- b) Explain the seven roles of commercial banks in an economy

[14 marks]

**Question Five**

- a) Explain the four criticisms of say's law by the Keynesian economists [12 marks]

- b) Explain the four objectives of Macroeconomic theory [8 marks]