GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS
MAY – AUGUST 2023 SEMESTER

DIPLOMA IN ACOUNTING

COURSE CODE: DECO 011
COURSE TITLE: PRINCIPLES OF MACROECONOMICS

DATE: **TIME:**

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) With reference to Keynesian theory of money, explain three motives for people holding wealth in form of money   **(6marks)**
b) Outline five obstacles that hinder economic development in developing countries
                                                                                                                                       (**10marks**)
c) Summarise five reasons why it is necessary to measure the national income of a country.

                                                                                                                                       (**10marks**)

d) Suppose the consumption function is given by $C = 20 + 0:6Y$ and the following
investment function is given I=10+0.2Y, find the equilibrium level of income (**4marks**)

e) The data provided below represents the national income model of a certain economy in billions of shillings:
$Y = C + I + G + (X-M)$
$C = 200 + 0.8Y^d$
$T = 200 + 0.2Y$
$I = 70$
$G = 50$
$X = 40$
$M = 60$
Where:
Y = national income
C = consumption expenditure
I = investment
G = government expenditure
Y^d = disposable income
T = taxes
X = exports
M = imports
Required
The equilibrium level of:
  i.   National income   **(5marks)**
  ii.   Consumption   **(3marks)**
  iii. Taxes   **(2 marks)**

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SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

a) The economy is in full employment, meaning all available resource, including human skills, are being engaged fully in production. Explain five policy measures for curing unemployment in Kenya   (1**0marks**)

b) A central bank of any country is referred to as the bank at the apex with monetary authority. Clearly explain five major functions of a central bank.   (1**0marks**)

 Question three

a) By use of a diagram describe the circular flow of income in a closed open economy.
                                                                                        (**5 marks**)

b) Explain five factors that influence the size of a country's national income.   (**5marks**)

c) Citizens have the obligation to pay taxes. Explain five major purposes of taxation in Kenya   **[10 marks]**

Question Four

   a) Using The Keynesian cross and the Investment function, describe how to derive the IS curve.   **[10 marks]**

   b) Describe five types of inflation   (**10marks**)

 Question five

   a) Summarize four assumptions of the circular flow of income model in a closed economy   (**8 marks**)

   b) Explain the term "per capita income"   (**2marks**

   c) With an aid of a diagram, explain the phases of business cycle   (**10marks**)