



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS MAY - AUGUST 2023 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: ECON101

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 the aid of well labelled diagrams, describe how a country using a fixed exchange rate system eliminates a deficit in the balance of payment **[10 marks]**

b) Discuss the five criticisms against the Relative Income Hypothesis on consumption **[15 marks]**

c) XYZ economy has the following hypothetical information

$$C=50+0.4Y$$

$$I=790+0.2Y$$

$$G= 1250$$

$$M= 0.167Y$$

$$X=3200$$

Required:

- i) Derive the National Income Equilibrium function **[3 Marks]**
- ii) Determine the Equilibrium Income **[4 marks]**
- iii) Calculate the Equilibrium Consumption **[2 Marks]**
- iv) Determine the Equilibrium Imports **[2 marks]**
- v) Determine the Equilibrium investment and the multiplier effect **[4 marks]**

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

Explain how monetary policy affects inflation and output when the economy is at;

- a) Full employment **[4 marks]**
- b) Not at full employment **[4 marks]**
- c) Explain the difference between the devaluation of a currency and the depreciation of a currency. **[12 marks]**

Question three

- a) Discuss the grounds in which Keynesian criticized Says Law? **[12 marks]**
- b) Discuss the main macroeconomic policy objectives that any responsible government would strive to achieve. **[8 marks]**

Question Four

Explain the following terms using examples and graphs

- i) Peak Theory [4 marks]
- ii) Pigou Effect [4 marks]
- iii) Fiscal Policy [4 marks]
- iv) Barter Trade [4 marks]
- v) Multiplier Effect [4 marks]

Question Five

- a) Explain the impact of unemployment in any economy [8 marks]
- b) Discuss factors that bring about disequilibrium in any economy and measures to correct it [12 marks]