



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS JANUARY-APRIL 2025 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 **TWO** 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) The government restricts import of undesirable or unimportant items by levying heavy import duties. Discuss the five factors that determine the fundamental disequilibrium in the balance of payment **[8 marks]**

b) Assume the following information represents the national income of ABC company

$$Y=C+I+G$$

$$C= a+bY^d$$

$$T= d+tY$$

$$I= I_0$$

$$G=G_0$$

Where the $a>0$, $0<b<1$, $d>0$, $0<t<1$

- i) Explain the economic interpretation of parameters **a, b, d** and **t** **[8 marks]**
- ii) Find the equilibrium equations of income, consumption and taxes **[4 marks]**

SECTION B: ANSWER ANY TWO QUESTIONS

Question Two

a) Explain the six factors that affect the aggregate investment **[12 marks]**

b) Discuss the four limitations of macroeconomics **[8 marks]**

Question three

ABC Economy has the following hypothetical functions:

$$C = 10 + 0.75 Y^d \text{ (Consumption function)}$$

$$I = 20 - 0.4r \text{ (Investment Expenditure)}$$

$$L = Y - 0.2r \text{ (Demand for money)}$$

$$G = 50 \text{ (Government expenditure)}$$

$$T = 40 + 0.25Y \text{ (Tax revenue)}$$

$$M = 90 \text{ (Money supply)}$$

a) Derive equations for IS and LM curves. **[6 marks]**

b) Compute equilibrium level of interest rate (r) and income (Y). **[4 marks]**

c) Explain any two factors that cause shift in IS and LM curves. **[6 marks]**

d) Explain any two factors that determine consumption behavior **[4 marks]**

Question Four

a) When the firms set the wages they will be rewarding their employees, they have to take into account of the industry prices. Explain the 4 types of structural unemployment

[8 marks]

b) Explain the 4 principles of Absolute Income Hypothesis **[12 marks]**

Question Five

a) Discuss 7 shortcomings of the Keynesian macro model on employment determination in Less Developed Countries. **[14 marks]**

b) Explain using 3 circumstances is inflation justifiable in an economy **[6 marks]**