

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS
RESIT/SPECIAL EXAMINATION**

**EXAMINATION FOR THE AWARD OF DIPLOMA IN BUSINESS MANAGEMENT
DIBM 0132: PRINCIPLES OF MACROECONOMICS**

STREAMS: DIBM

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 30/08/2023

2.30 P.M – 4.30 P.M.

INSTRUCTIONS

- Answer question **ONE** and any other **TWO**.
- Do **not** write anything on the question paper.

QUESTION ONE

- a) Differentiate the following economic terms. (8 marks)
- Leakages and injections
 - Fixed and flexible exchange rate
 - Autonomous and induced investment
 - Per capita and disposable income

- b) Discuss the importance and the limitations of studying macroeconomics. (8 marks)

- c) Given that $C = 100 + 0.37 Y^d$

$$T = 10 + 0.1 Y^p$$

Prove that $MPC + MPS = 1$. (5 marks)

- d) Using a well labelled diagram, discuss the simple circular flow of income in an economy. (6 marks)
- e) Discuss the basic functions of money. (3 marks)

QUESTION TWO

- a) GNP of country A is more than that of country B, therefore the welfare of country A is far much better than that of a country B. As an economist criticize the statement. (10 marks)
- b) Discuss the types of unemployment and measures that the government can use to boost employment of youth in Kenya. (10 marks)

QUESTION THREE

- a) Discuss the challenges faced in accounting for national income in Kenya. (10 marks)
- b) Explain the causes of cost-push inflation in an economy. (10 marks)

QUESTION FOUR

- a) Given the following information about a certain economy,

$$C = 2000 + 0.8 Y^d$$

$$I = 300 + 0.2 Y$$

$$G = 370$$

$$X = 25$$

$$M = 350 + 0.2Y$$

$$T = 100$$

Required:

- i) Derive the savings function. (2 marks)
 - ii) Compute the equilibrium income, consumption, import and saving. (10 marks)
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- b) Discuss the major goals of macroeconomics and clearly define how the government can actively achieve these goals. (8 marks)
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