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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
FIRST YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 15th December, 2022
Time: 11.30am – 1.30pm

KFI 101 - PRINCIPLES OF MACRO ECONOMIC THEORY

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Assume a closed economy where the level of I is 300, $G=T=150$ and the savings function is $S = -30 + 0.15Y^d$ Where S is savings, I is investment, G is government expenditure, T is taxes and Y^d is disposable income.
- i) Calculate the equilibrium level of income. (3 Marks)
 - ii) What will be the increase in national income if investment reduces by 25 holding other variables constant? (3 Marks)
 - iii) Suppose government reduced taxes by 100 in this economy, what would be the change in national income? (3 Marks)
 - iv) Using a well labelled diagram show the circular flow of Income in an open economy. (5 Marks)
 - v) Briefly explain the two types of exchange rate regimes. (4 Marks)
- b) Using relevant examples, explain the following concepts: (6 Marks)
- i) Injections
 - ii) Withdrawals

- c) By use of a graph, explain the meaning of ratchet effect and paradox of thrift (6 Marks)

QUESTION TWO (20 MARKS)

- a) Differentiate between narrow money (M_1) and broad money (M_2). (4 Marks)
- b) Why do people hold money when they can earn interest by lending it to others or by buying interest yielding bonds? (6 Marks)
- c) Through which instruments does the Central Bank of Kenya control money supply? (6 Marks)
- d) Graphically derive the IS curve (4 Marks)

QUESTION THREE (20 MARKS)

- a) The following data relate to an emerging African country.

Item	Value ('000) KSHS
GNP	8,000,000
Depreciation	100,000
Indirect Business Taxes	80,000
Gross Investment	400,000
Total population	30,000
Consumption	10,000
Personal Income Taxes	800
Excise duty	80
Subsidies	25,000
Personal Income	89,000
Net factor incomes from abroad	200,000

Using the above data, calculate:

- i) Net National Product (2 Marks)
 - ii) GNP per capita (2 Marks)
 - iii) Net investment (2 Marks)
 - iv) Disposable personal income (2 Marks)
 - v) Gross domestic product (National Income) (2 Marks)
- b) Discuss the main Limitations of National Income Accounting. (10 Marks)

QUESTION FOUR (20 MARKS)

- a) Explain the following concepts as used in macro-economics:

- i) Credit creation (use illustrations) (2 Marks)
- ii) Cyclical unemployment (2 Marks)
- iii) Natural (potential) output (2 Marks)
- iv) Money Illusion (2 Marks)
- v) J-curve (2 Marks)

- b) What measures would you recommend to the government to use for controlling the cost-push inflation in Kenya? (10 Marks)

QUESTION FIVE (20 MARKS)

- a) State any four functions that money plays in an economy (4 Marks)
- b) With respect to consumption theory, discuss the Permanent Income Hypothesis and Life-Cycle Income Hypothesis. Use graphs where applicable. (8 Marks)
- c) Discuss any four types of unemployment. (8 Marks)