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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR**  
**FIRST YEAR, SECOND SEMESTER EXAMINATION**  
**FOR THE DEGREE OF BACHELOR OF SCIENCE**  
**(BUSINESS ADMINISTRATION)**

Date: 20<sup>th</sup> April, 2023

**KFI 101 - PRINCIPLES OF MACRO ECONOMIC THEORY**

**INSTRUCTIONS TO CANDIDATES**

**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE (30 MARKS)**

- a) Money facilitates transactions of goods and services as a medium of exchange. Producers sell their goods to wholesalers in exchange of money. Wholesalers, in turn, sell their goods to the retailers and the retailers sell these goods to the consumers in exchange for money. However, money as a medium of exchange does face several problems. Discuss.

(6 marks)

- b) The following set of equations describe the economy of country P

$Y = C + I + G + (X - M)$	Equilibrium equation
$C = 2000 + 0.8Y^d$	Consumption function
$I = 3500$	Investment
$G = 3700$	Government expenditure
$X = 2500$	Exports
$M = 400 + 0.3Y$	Import equation
$T = 100 + 0.25Y$	Tax equation

**Required**

- i) Compute the equilibrium National income for the country P (7 marks)
- ii) Obtain the trade balance, marginal propensity to import and describe the position (4 marks)
- iii) Compute the disposable income (3 marks)
- iv) What is the autonomous consumption in the economy and what is the marginal propensity to consume. Interpret (5 marks)
- v) What would be the equilibrium level of income if the marginal propensity to consume was 0.6? (5 marks)

## **QUESTON TWO (20 MARKS)**

You have been invited as a consultant by the Ministry of labour to discuss the solution to the raising youth unemployment in Kenya.

- a) Highlight five solutions that you would advise the cabinet secretary to implement. (5 marks)
- b) Explain the solutions highlighted in (i) above giving relevant examples. (15 marks)

## **QUESTION THREE (20 MARKS)**

- a) The Quantity Theory of Money is one of the oldest theories of money, and its origins can be traced back to the works of economists such as John Locke, David Hume, and Thomas Tooke in the 17th and 18th centuries. Based on this theory answer the following questions:
  - i) What is the relationship between the money supply and the general price level according to the Quantity Theory of Money? (5 marks)
  - ii) If the velocity of money stays constant, what happens to the general price level if the money supply increases? (5 marks)
- b) Draw and describe the diagram showing the circular flow of income and expenditure. (10 marks)

## **QUESTION FOUR (20 MARKS)**

- a) Kenya has experienced increased debts due to high borrowing for the recent past. There are many ways a country would pay its debts. As a profession in charge of economic planning which ones do you think would be best for Kenya. Explain your answer. (10 marks)
- b) Define the following terms as used in macroeconomics:
  - i) Ratchet effect
  - ii) Money illusion
  - iii) Gross Domestic Product
  - iv) Inflationary gap
  - v) Crowding out effect(10 marks)

## **QUESTION FIVE (20 MARKS)**

- a) There has been increased push for many countries to join the East African community bloc. The recent being Democratic Republic of Congo. What would be the benefits of joining such a bloc to a country? Discuss. (10 marks)
- b) As an economics student at Kiriri Womens University of Science and Technology you have been invited by the media houses in a debate on factors contributing to recent increased inflation rate in Kenya that has caused various commodities prices to increase. What would be your discussion? (10 marks)