EMBU UNIVERSITY COLLEGE

(A Constituent College of the University of Nairobi)

2015/2016 ACADEMIC YEAR

FIRST SEMESTER EXAMINATIONS

SECON YEAR EXAMINATION FOR THE DEGREES OF BACHELOR OF COMMERCE

TBS 203 ELEMENTS OF MACROECONOMICS

DATE: NOVEMBER 30, 2015   **TIME: 11:00-13:00**

INSTRUCTIONS:

Answer Question ONE and ANY other TWO Questions.

QUESTION ONE

a) Write short notes on the following terms.

   i)   Unemployment rate   (2 marks)

   ii) Expenditure approach of national accounting   (2 marks)

   iii) Interest rate   (2 marks)

   iv) Productivity growth   (2 marks)

   v) Government budget deficit   (2 marks)

   vi) Foreign trade budget   (2 marks)

   vii) Implicit GNP deflator   (2 marks)

   viii)   Real GNP   (2 marks)

   ix) Nominal GNP   (2 marks)

   x) Real per capita income   (2 marks)

b) Assume a simple two sector Keynesian national income model where:

$$Y = C + I$$
$$C = a + bY$$
$$I = I_o$$

And further given a = 85, b = 0.45 and I = 55

Calculate	(i)	National income (Y)	(4 marks)
	(ii)	Marginal Propensity for Consumption (MPC)	(2 marks)
	(iii)	Marginal Propensity for Savings (MPS)	(2 marks)
	(iv)	Autonomous income	(2 marks)

QUESTION TWO

a) Define business cycle   (2 marks)

b) Using a diagram explain

    i)   Circular flow of income   (6 marks)

    ii)   Business cycle and show slump; boom and recession.   (8 marks)

c) With reference to circular flow of income differentiate leakages (withdrawals) and injections

    (4 marks)

QUESTION THREE

a) Explain three types of inflation in economy   (8 marks)

b) If 1985 GNP deflator = 1.08 and 1982 GNP deflator = 1.00

Calculate the inflation rate.   (6 marks)

c) If the level of nominal GNP (Y) is 6000 and the level of real GNP (Q) is 4500 what is the value of the real GNP deflator   (6 marks)

QUESTION FOUR

a) Describe five types of unemployment   (5 marks)

b) Using suitable diagram explain

    i)   IS and LM curves   (10 marks)

    ii)   Philip's curve   (5 marks)

QUESTION FIVE

a) Define money and barter trade   (4 marks)

b) Give five qualities of good money   (5 marks)

c) Give five functions of money   (5 marks)

d) State the three motives of liquidity preference.   (6 marks)

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