



SCHOOL OF PROFESSIONAL STUDIES

UNIT CODE: BBA 202/BBIT211: PRINCIPLES OF MACROECONOMICS

AUGUST-DECEMBER 2018 END SEMESTER EXAM - 2 HOURS

Instructions: Answer question one (1) (Compulsory) and any other two

Question one

- a) i) Everything else held constant, a decline in interest rates will cause spending on housing to:
- a. Fall
 - b. Remain unchanged
 - c. Rise
 - d. Fall and rise
- ii. Currency includes
- a. Paper money and coins
 - b. Paper Money, coins and cheques
 - c. Paper Money, Coins and Savings accounts
 - d. Paper Money, Coins, Cheques and Savings Accounts
- iii. A sharp increase in the growth of money supply is likely to be followed by
- a. A depression
 - b. No change in the economy
 - c. An increase in inflation rate
 - d. A recession
- iv. _____ policy involves decisions about government spending and taxation
- a. Fiscal
 - b. Monetary
 - c. Systemic
 - d. Financial
- v. When tax revenues are greater than government expenditure, the government has a budget _____

- a. Deficit
 - b. Crisis
 - c. Re alignment
 - d. Surplus
- vi. The most comprehensive measure of aggregate output is
- a. Gross Domestic Product
 - b. Annual Revenue
 - c. Net national Product
 - d. Nairobi Stock Exchange shares valuation
- vii. When the total value of final goods and services is calculated using current prices, the resulting measure is referred to as
- a. Real Gross Domestic Product
 - b. Consumer Price Index
 - c. Nominal Gross Domestic Product
 - d. Gross Domestic product
- viii. The basic task of an economy is
- a. To allocate resources
 - b. To use limited/scarce resources to satisfy unlimited desires
 - c. To Create employment
 - d. To serve the government of the day
- ix. Which one is not a macroeconomic problems?
- a) High inflation rate
 - b) High unemployment rate
 - c) High interest rates
 - d) High economic growth
- x. Everything else held constant, an increase in interest on student loans
- a. Increases the cost of college education
 - b. Reduces the cost of college education
 - c. Has no effect on college education
 - d. Increases costs for students with

(10 marks – 1 mark each)

b) Kenya's transport consumer price Index increased by 7.99 per cent in September 2018 compared to the previous month, and 17.29 per cent compared to same month in 2017. What do you attribute this increase to? **(6 marks)**

c) The data below is extracted from Kenya National Bureau of Statistics.

Month	Overall CPI	Annual Inflation Rate
Sep 2017	183.66	7.06
Oct 2017	182.50	5.72
Nov 2017	182.08	4.73
Dec 2017	183.05	4.50
Jan 2018	185.47	4.83
Feb 2018	188.00	4.46
Mar 2018	190.62	4.18
Apr 2018	193.18	3.73
May 2018	195.05	3.95
June 2018	193.31	4.28
Jul 2018	191.59	4.35
Aug 2018	192.18	4.04
Sep 2018	194.14	

Required: Calculate the annual inflation in September 2018

(6 marks)

d) Recently there has been talk that Kenyas' cost of living has gone up. What economic measure do you think the proponents of this statement are referring to? **(4 marks)**

e) Does inflation impact employment? **(4 marks)**

Question two

a) There are three approaches to computing GDP ie Income, expenditure or value- added method..

John buys no intermediate goods (he simply found a seed, planted it, and then hired Wamalwa to pick and box mangoes), but he sells the mangoes to Otieno for Sh 500,000.00 Otieno takes the mangoes and turns them into mango juice that he sells to Caroline for Sh800,000.00.

- i) Calculate the value-added in each stage **(5marks)**
- ii) What is the GDP using value-added method? **(4 marks)**
- iii) What is the GDP using the expenditure and income approach (explain your answer) **(6 marks)**

Question three

Assume the items below constitute the market basket for an economy

Item	Quantity	Average Price (current Year)
Food & Non Alcoholic beverages	20	200
Transport	10	100
Electricity	5	300
Clothing and footwear	12	600
Total		

Item	Quantity	Average Price (base year)
Food & Non Alcoholic beverages	20	180
Transport	10	80
Electricity	5	350
Clothing and footwear	12	580
Total		

- i) Calculate the Consumer Price Index (CPI)
- ii) What is the implication CPI in an economy?

(10 marks)

(5 marks)

Question four

- a) State and explain any three types of unemployment.
- b) Why does Kenya need to have Foreign Exchange Reserves?

(9 marks)

(6 marks)

Question five

State and explain any three Economic Growth Theories.

(15 marks)