



STRATHMORE UNIVERSITY BUSINESS SCHOOL
BACHELOR OF FINANCIAL SERVICES
END OF SEMESTER EXAMINATION
BFS 1204: INTRODUCTION TO MACROECONOMICS

DATE: 15th March 2024

Time: 13:00 – 15:00

Instructions

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

QUESTION ONE

a) Distinguish between the following pairs of concepts as applied in economics.

- i. Budget deficit and budget surplus **(2 Marks)**
- ii. Currency Depreciation and Currency devaluation. **(2 Marks)**
- iii. Fiat money and Commodity money. **(2 Marks)**

a) Given the following information and data for a hypothetical economy in millions of

local currency:

Salaries and wages	136,000
Interest incomes	54,060
Profits	23,300
Rent incomes	71,500
Depreciation	10,500
Net factor incomes from abroad	1900
Subsidies	2000
Indirect taxes	1000

Required:

Compute the following:

- i. Gross Domestic Product (GDP) at Factor Cost **(2 Marks)**
- ii. Gross National Product at both Market prices and Factor Cost **(4 Marks)**
- iii. Net National Product (NNP) at Factor Cost **(2 Marks)**

b) Highlight the Keynesian motives for demand for money **(6 Marks)**

c) Explain **three** consequences of a persistent rising trend of the general prices in the economy.

- d) Explain **four** problems Kenya will face if it adopts a free trade policy **(6 Marks)**
(4 Marks)

QUESTION TWO

- a) Explain **four** functions of the central bank in an economy. **(8 Marks)**
- b) Given the following information for a hypothetical economy:

Autonomous consumption = 800
Taxes (T) = 20
Investment = 1200
Government expenditure = 818
Marginal Propensity to Consume = 0.9

Required:

- i) State the equilibrium condition **(2 Marks)**
ii) Write the consumption function. **(2 Marks)**
iii) Calculate the equilibrium values of **Y**, **C**, and **S**. **(6 Marks)**
iv) What is the value of the government multiplier? Interpret it **(2 Marks)**

QUESTION THREE

- a) Supposing Country Y imposed trade restrictions on goods from Kenya entering its territory. Discuss **five** retaliatory trade barriers that you would advise the Kenya Government to put in place. **(10 Marks)**
- b) Explain **five** difficulties encountered when estimating the national income of a country. **(10 Marks)**

QUESTION FOUR

- a) Country X has been facing excess money circulation in the economy and is increasing inflation. Explain **five** strategies that the Monetary Authority of country X may use to reduce the amount of liquidity in circulation. **(10 Marks)**
- b) Discuss **five** arguments that countries give against imposing trade restrictions/protectionism measures. **(10 Marks)**

QUESTION FIVE

- (a) What is meant by the term 'Labour force'? Explain **three** consequences or costs of unemployment to a country. **(8 Marks)**
- (b) Define sustainable development and describe **four** Sustainable Development Goals

(SDGS)

(6 Marks)

(c) Country X has been increasing taxes and levies on the gross incomes of its citizens arguably to raise government revenue to fund its ballooning budget and repay its growing public debt.

i. Explain the effect of this strategy on the demand for goods and services. **(2 Marks)**

ii. Do you think this may help Country X to achieve much-needed economic growth?
(2 Marks)

(d) Highlight **two** strategic solutions that countries facing a balance of payment (BOP) problems may adopt. **(2 Marks)**