



STRATHMORE UNIVERSITY BUSINESS SCHOOL
BACHELOR OF FINANCIALS SERVICES (BFS)
BFS 1204: INTRODUCTION TO MACROECONOMICS
END OF SEMESTER EXAM

DATE: 8th December 2023

Time: 08:00-10:00

Instructions

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

QUESTION ONE. (30 MARKS)

- a) Carefully distinguish between the following concepts:
- i. Comparative advantage and absolute advantage. **(2 Marks)**
 - ii. Injections and withdrawals. **(2 Marks)**
 - iii. Gross Domestic Product (GDP) and Gross National Product (GNP). **(2 Marks)**
- b) What is meant by inflation? Explain **four** effects of inflation on an economy. **(10 Marks)**
- c) Given the following information and data for a hypothetical economy in millions of local currency:
- | | |
|--------------------------------|---------|
| Consumption Expenditure | 136,000 |
| Investment Expenditure | 50,000 |
| Government expenditure | 100,000 |
| Exports | 20,000 |
| Imports | 80,000 |
| Depreciation | 10,000 |
| Net factor incomes from abroad | 1900 |
| Subsidies | 2000 |
| Indirect taxes | 1000 |

Required:

Compute the following:

- i. Gross Domestic Product (GDP) at Market Price **(2 Marks)**
- ii. Net Domestic Product at Market Price **(2 Marks)**
- iii. Gross National Product at Factor Cost **(2 Marks)**
- iv. Net National Income/Net National Product at Factor Cost **(2 Marks)**

- d) The Kenyan shilling has recently been weakening/depreciating compared to the US dollar. Explain the implications of this to the country's exports and imports of goods and services. **(6 Marks)**

QUESTION TWO (20 Marks)

- a) Given the following information for a hypothetical economy in millions of local currency.

$$C=1000+0.4Y_d$$

$$I=200$$

$$T=50$$

$$G=400$$

Where **C** is consumption, **I** is Investment expenditure, **T** is Taxes and **G** is government expenditure.

Required:

- i. State the equilibrium condition **(2 Marks)**
 - ii. Calculate the level of equilibrium national income (**Y**), consumption (**C**), savings and (**S**) **(6 Marks)**
 - iii. Compute the value of the multiplier . **(2 Marks)**
- b) Distinguish between Sustainable Development and Human Development. **(4 Marks)**
- c) Explain **three** functions of money in the economy. **(6 Marks)**

QUESTION THREE (20 Marks)

- a) The number of Kenyans out of work has more than doubled over the last decade according to an article recently published in The East African newspaper. Discuss **five** causes of this high unemployment situation. **(10 Marks)**
- b) Explain **five** tools/strategies that Central Banks may utilise to increase money supply in the economy. **(10 Marks)**

QUESTION FOUR (20 Marks)

- a) Expound on **five** difficulties encountered when estimating the national income of a country. **(10 Marks)**
- b) Explain **five** characteristics that distinguish developing countries from developed countries. **(10 Marks)**

QUESTION FIVE (20 Marks)

- a) Discuss **five** factors that influence the economic growth of a country. **(10 Marks)**
- b) Explain **four** advantages of countries participating in international trade. **(8 Marks)**
- c) Define Terms of Trade (TOT) and describe **two** causes of unfavourable movement in a country's terms of trade. **(2 Marks)**