



Strathmore
UNIVERSITY

STRATHMORE INSTITUTE OF MATHEMATICAL SCIENCES
BACHELOR OF BUSINESS SCIENCE ACTUARIAL SCIENCE, FINANCIAL ECONOMICS
AND FINANCIAL ENGINEERING.
END OF SEMESTER EXAMINATION
BSA 1202, BSE 1204: MACROECONOMICS 1

DATE: 15th December 2023

Time: 13:00-15:00 Hrs

Instructions

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

Question One

- a) Consider the following equations describing the components of demand and equilibrium in the goods market:

$$C = 120 + 0.5(Y - T)$$

$$I = 40$$

$$G = 20$$

$$T = 40$$

Where: C- consumption expenditure, Y – National income, G – Government Expenditure, I- Investment expenditure and T- taxes

- i. Solve for the equilibrium level of output in the economy (3 Marks)
 - ii. There is a permanent increase in Government spending of 10 units solve for the new equilibrium (2 mark)
- b) Describe the relationship between Marginal propensity to Consume (MPC) and Marginal propensity to Save (MPS) (2 Mark)

- c) Equilibrium Income occur when total spending or planned aggregate expenditure equal total production or GDP
- i. Based on this argument use a graph to illustrate the equilibrium condition and show the relationship between planned expenditure and GDP (5 Marks)
 - ii. Explain the cause and the remedy to either side of the 45° line (4 Marks)
- d) Highlight the disadvantages of using GDP per capita as a measure of the standard of living. (6 marks)
- e) Define the term inflation. Using Philips curve discuss the relationship between inflation and unemployment. (8 marks)

Question Two

- a) What are the differences between the three approaches to the measurement of national income? (12 marks)
- b) Using the circular flow of income show that the three approaches are equivalent? (4 marks)
- c) What are the difficulties experienced while using each method and how can they be overcome? (4 marks)

Question Three

- a) Explain the reasons why the government levies taxes on its citizens. (5 marks)
- b) Highlight any five principles of a good tax system. (5 marks)
- c) Given the following data for a hypothetical economy

	Shs '000'
Social security contribution	5,000
Transfer payments	3,500
Subsidies	1,500
Net property income from abroad	500
Consumer expenditure	37,000
Depreciation	7,000
Taxes on expenditure	8,500
Export of goods and services	17,500
Gross domestic fixed capital formation	11,500

Import of goods and services	18,500
General government final expenditure	13,500
Corporate income tax	1,500
Personal income tax	2,000
Undistributed profits	1,000

Determine;

- i. Gross national product
- ii. Net national product
- iii. National income
- iv. Personal income
- v. Disposable income (10 marks)

Question Four

- a) Explain three major types of unemployment experienced in Kenya. (6 marks)
- b) Discuss three adverse effects caused to society by a high rate of unemployment. (6 marks)
- c) To what extent can fiscal and monetary policies be used to alleviate the problems of general unemployment? (8 marks)

Question Five

Define and distinguish the following;

- a) Deflationary gap and inflationary gap
- b) Economic growth and economic development
- c) Speculative demand and transactions demand for money
- d) Balance of trade and balance of payments. (20 marks)