



STRATHMORE BUSINESS SCHOOL
BACHELOR OF COMMERCE AND BACHELOR OF FINANCIALS SERVICES
END-OF-SEMESTER EXAMINATION
BCM 1203/ BFS 1204: INTRODUCTION TO MACROECONOMICS

DATE: Thursday, 13th March 2025

TIME: 13:30 – 15:30

Instructions

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

QUESTION ONE

(30 MARKS)

Question one (1 to 13) is multiple choice. Please choose the correct answer.

1. Hyperinflations tend to occur when: **(1 Mark)**
 - a) Monopoly raises prices above competitive levels.
 - b) The menu costs of price changes become too small.
 - c) Central banks print a lot of money to finance large government budget deficits.
 - d) Monetary policymakers act independently of fiscal policy.

2. Which of the following is **NOT** part of the money supply in an economy? **(2 Marks)**
 - a) the metal coins in your pocket
 - b) the paper currency in your wallet
 - c) The gold stored by the Central Bank
 - d. the funds in your checking account

3. Which of the following is a method of measuring national income? **(2 Marks)**
 - a) Expenditure approach
 - b) Income approach
 - c) Output or value-added approach
 - d) All of the above.

4. Which of the following is the correct term for calculating Gross Domestic Product (GDP) at constant prices? **(1 Mark)**
 - a) Current income
 - b) Domestic income
 - c) Real income
 - d) None of the above

5. Which of the following is the actual definition of transfer payments? **(1 Mark)**
- a) Transfer payments refer to the payments made as compensation to the employees within an organization.
 - b) Transfer payments refer to the payments made to workers upon transferring from one job to another.
 - c) Transfer payments refer to payments made without any exchange of goods and services.
 - d) None of the above
6. Which of the following statements best describes the labour force of a country? **(2 Marks)**
- a) Only people who are currently employed
 - b) Only people who are currently unemployed
 - c) Both people who are retired and full-time students
 - d) Both those people who are working and those who are actively seeking work
7. According to the Central Bank of Kenya data, Kenya's External Debt in 2024/2025 financial year was Kshs. 591 billion, Domestic Debt was KShs.1263 and the total budget was KShs.3870 billion. Considering the projected Government revenue was KShs 3354, calculate the Public Debt and the Budget Deficit for the same period. **(4 Marks)**
- a) Public debt was KShs 3870 billion and Budget deficit was KShs 0
 - b) KShs 1854 billion was public debt and KShs 516 billion
 - c) KShs 3879 billion was public debt and KShs 3354 billion
 - d) No of the above
8. Which one of the following is a function of money? **(4 Marks)**
- a) Acts a medium of exchange for goods and services
 - b) It is used as a standard for deferred payments
 - c) It is a unit of account
 - d) All of the above.
9. Distinguish between nominal GDP and Real GDP. **(2 Marks)**
- a) Nominal GDP is measured based on constant year prices and factors in inflation while real GDP is measured based on prevailing market prices
 - b) Nominal GDP is measured based on prevailing market prices when the final goods and services are produced and while real GDP is measured based on a constant year prices also referred to as base year prices and factors in inflation.
 - c) The two are used interchangeable meaning they have the same meaning
 - d) None of the above
10. Which one of the following best describes the qualities of money? **(2 Marks)**
- a) Easily recognizable
 - b) Divisibility
 - c) Acceptability
 - d) All of the above
11. Carefully distinguish between a balanced budget and a budget surplus **(2 Marks)**

- a) A balanced budget is achieved when the government revenue/Taxes equal government expenditure, while a budget surplus is achieved when the government revenue/taxes is greater than government expenditure/budget.
- b) A balanced budget is achieved when the government revenue/taxes is greater than government expenditure/budget while a budget surplus is achieved when the government revenue/Taxes equal government expenditure/budget.
- c) A balanced budget is achieved when the government revenue/taxes is equal to the national debt while a budget surplus is achieved when the government revenue/Taxes equal government expenditure/budget.
- d) None of the above

12. The Kenyan shilling has recently been appreciating in value compared to the US dollar. Explain the implications of this development to the country's exports and imports of goods and services. **(4 Marks)**

- a) Exports of goods and services will be cheaper while imports will be expensive as viewed by our local importers. This is because foreigners will need a few units of US dollars to buy more units Kenya Shillings to buy Kenya-made goods and services.
- b) Exports of goods and services will be expensive as viewed by foreign buyers, while imports will be cheaper as viewed by our local importers. This is because a unit of the US dollar will buy fewer units of Kenya Shillings in order to buy Kenya-made goods and services while Kenyan importers will spend fewer units of Kenya shillings to buy a unit of US dollars hence import become cheaper.
- c) There will be no effect on the exports and imports.
- d) None of the above

13. Differentiate between Injections and Withdrawals in and from the circular flow of income of **(3 Marks)**

- a) Injections refer to money/income inflow of money into the circular flow of income and expenditure mainly investment expenditure (I), government expenditure (G) and Exports (X). On the other hand, withdrawals include the three basic leakages/outflow from circular flow of income and expenditure: savings (S), taxes (T), and imports (M). Money leaves the economy (or "leaks" out) when households put their money in banks for a later ("rainy") day, when the government takes out taxes from peoples' paychecks and when households buy foreign goods.
- b) Injections refer to money/income outflow out of the circular flow of income and expenditure mainly investment expenditure (I), government expenditure (G) and Exports (X). On the other hand, withdrawals include the three basic leakages: savings (S), taxes (T), and imports (X). Money leaves the economy (or "leaks" out) when households put their money in banks for a later ("rainy") day, when the government takes out taxes from peoples' paychecks and when households buy foreign goods. Another note: savings is required for investment (banks need money to lend) and governments spend taxpayer's money.
- c) When injections are equal to the withdrawals from the circular flow of income and expenditure
- d) None of the above.

QUESTION TWO**(20 MARKS)**

- a) Distinguish between Commodity money and Fiat money **(4 Marks)**
- b) Explain **FOUR** ways central banks can use to influence the Money Supply. **(8 Marks)**
- c) Consider the following information for a hypothetical economy in millions of local currency:

Salaries and wages	136,000
Interest incomes	54,060
Profit	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 Income **(2 Marks)**

QUESTION THREE**(20 MARKS)**

- a) What is international trade? Even though the World Trade Organisation (WTO) promotes a 'theoretically free' trade, all countries tend to protect their industries against foreign competition. Explain **FIVE** reasons favour of trade protectionism. **(10 Marks)**
- b) 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 expenditure, I is investment expenditure, T is Taxes and G is government expenditure.

Required:

- i. State the National Income 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)**

QUESTION FOUR**20 MARKS**

- a) Highlight **FOUR** factors that influence the level of economic growth of a country. **(4 Marks)**
- b) Distinguish between Sustainable Development and Human Development. **(4 Marks)**
- c) The number of Kenyans out of work has more than doubled over a decade according to an article recently published in The East African newspaper. Discuss **THREE** causes of this high unemployment situation. **(6 Marks)**
- d) Explain **THREE** tools/strategies that Central Banks can utilise to increase money supply in the economy. **(6 Marks)**

QUESTION FIVE**20 MARKS**

- a) Expound on **TWO** characteristics that distinguish developing countries from developed countries. **(4 Marks)**
- b) The Central Bank is a government institution that is responsible for ensuring stability in the working of a country's financial system. Outline **FOUR** functions of the central bank in an economy. **(4 Marks)**
- c) Expound on **THREE** difficulties encountered when calculating the national income of a country. **(6 Marks)**
- d) Define the term inflation? Explain **FOUR** effects of inflation on an economy. **(6 Marks)**