



**MURANG'A UNIVERSITY COLLEGE**

***(A Constituent College of Jomo Kenyatta University of Agriculture & Technology)***

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE (BCOM)

UNIT CODE: HBC 2111 INTRODUCTION TO MACROECONOMICS

DATE: AUGUST

TIME: 3 HOURS

***Instructions***

- Answer questions one & any other two questions.

- 1a. Describe the various methods of estimating the national income of a country and show why they give the same estimate. +[10 marks]
- b. With reference to Keynes liquidity preference theory distinguish between 'speculative motive' and 'precautionary motive of holding money as wealth. [4 marks]
- c. Discuss the factors that limit the application of the multiplier in economic management. [10 marks]
- d. Discuss the circular flow of income and expenditure in a two sector economy with the aid of a suitable diagram. [6 marks]
2. Argue the case for and against the policy of protectionism. [20 marks]
- 3a. A central bank is referred to as the bank at the apex with monetary authority. Clearly explain the major functions of a central bank. [10 marks]
- b. Discuss the importance and significance of national income estimates in modern economic analysis. [10 marks]

4a. Assume the following information represents the national income model of an 'utopian' economy.

$$Y = C + I + G$$

$$C = a + b(Y - T)$$

$$I = d + tY$$

$$I = I_0$$

$$G = G_0$$

Where:

$$a > 0; 0 < b < 1$$

$$d > 0; 0 < t < 1$$

T = Taxes

G = Government expenditure

I = Investment

**Required:**

- i. Explain the economic interpretation of the parameters a, b, d and t. [4 marks]
  - ii. Find the equilibrium values of income, consumption and taxes. [12 marks]
- b. Distinguish between the concept of absolute advantage and the concept of comparative advantage. [4 marks]
- 5a. How do commercial banks create credit? What are the limitations of the process of credit creation. [10 marks]
- b. Briefly explain two examples in each case of withdrawals from the circular flow of income and injections into the circular flow of income. [4 marks]
  - c. Discuss the monetary policy instruments used to control money supply in an economy. [6 marks]