



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF AGRICULTURAL AND FOOD SCIENCES
UNIVERSITY EXAMINATION FOR DEGREE OF BACHELOR OF SCIENCE IN
AGRIBUSINESS MANAGEMENT
2ND YEAR 1ST SEMESTER 2021/2022 ACADEMIC YEAR
REGULAR

COURSE CODE: BEN 3213/AEB 1203

COURSE TITLE: PRINCIPLES OF MACROECONOMICS

EXAM VENUE: STREAM: (BSc. Agribusiness Management)

DATE: EXAM SESSION:

TIME: 2HOURS

Instructions

- 1. Answer ALL questions in Section A (compulsory) and ANY TWO questions in Section B**
 - 2. Candidates are advised NOT to write on the question paper**
 - 3. Candidates must hand in their answer booklets to the invigilator while in the examination room**
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SECTION A **[30 MARKS]**

Answer ALL questions from this Section.

1. National income is a measure of the total monetary value of the flow of final goods and services arising from the productive activities of a nation in any one year.
 - a) What are the main problems associated with national income accounting in developing countries? [4marks]
 - b) Distinguish between credit creation and credit multiplier. [2marks]
 - c) Why is it difficult to compare the national income of one country with that of another country? [4marks]

2. Inflation is a persistent rise in the general price level brought about by an expansion in demand or money supply.
 - a) Outline any THREE possible ways in which government spending and taxes may be used to intervene in the economy. [3marks]
 - b) What are the drawbacks of using Consumer Price Index (CPI) as the measure of inflation? [2marks]
 - c) What is the relationship between inflation and unemployment? [2marks]
 - d) Is it possible to apply the concept of multiplier in an economy experiencing leakages and unpredictability in consumption but characterized by full employment? Explain. [3marks]

3. A tax is an amount levied on a given individual, institution or group by the government.
 - a) What is a tax incidence? [2marks]
 - b) How can legal units shift burden of tax to others? [4marks]
 - c) What is the advantage of using tariffs as a form of indirect taxes especially in a developing country? [2marks]
 - d) Explain the positive implications of a persistent current account surplus in international trade. [2marks]

SECTION B **[40 MARKS]**

Answer any TWO QUESTIONS in this Section.

4. The commodity and money markets of a given economy are presented hypothetically below:

Commodity market:

$$Y = C + I$$

$$C = 100 + 0.3Y$$

$$I = 2,000 - 2.1r$$

Money market:

$L_t = 0.2Y$ (transaction demand for money function)

$L_s = 10 - 2r$ (speculative demand for money function)

$M_s = 1,500$ (money supply demand)

Required:

- a) Derive the Is curve [3marks]
 - b) Derive the LM curve [3marks]
 - c) Derive the equilibrium level of income and rate of interest. [6marks]
 - d) If the money supply is increased by 50, what would be the effect on the equilibrium level of income and rate of interest? [4marks]
 - e) State four objectives of monetary policy in a country. [4marks]
5. In the recent past, there has been agitation by the trade unions on matters concerning salary increase amid the falling production capacities and real output and rise in import crude oil prices. The government has decided to increase the minimum wage rate by Kshs.10,000 as a buffer to low income earners due to the increase in VAT taxes. Note that this is an open economy where marginal propensity to consume is 0.8, marginal propensity to import is 0.4 and marginal propensity to tax is 0.2.
- a) Calculate the multiplier effect of Kshs. 10,000 minimum wage increase to the national income. [4marks]
 - b) What is the economic implication of the value of the multiplier in (a) above to the national income? [2marks]
 - c) What is the most likely adverse economic situation that might arise due to increase in wages amid falling production capacities? [2marks]
 - d) Explain any two mitigation measures to the adverse scenario in (c) above. [4marks]
 - e) Distinguish between:
 - i. Cyclical unemployment and frictional unemployment. [2marks]
 - ii. Tax evasion and tax avoidance. [2marks]
 - iii. Creeping inflation and suppressed inflation. [2marks]
 - iv. Treasury bonds and treasury bills. [2marks]
6. A budget deficit occurs whenever government expenditure exceeds government revenue.
- a) Explain why this might not be a problem in the economy from the Keynesian point of view. [4marks]
 - b) What are some of the long term measures the government can employ to deal with balance of payment deficits? [6marks]
 - c) The agricultural sector has been described as the key sector in Kenya's economic development. Briefly explain the role that the sector plays in the economic development of Kenya. [6marks]
 - d) What are the main economic problems that affect countries which mainly rely on agriculture? [4marks]

