



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

UNIVERSITY EXAMINATION FOR THE DIPLOMA IN BUSINESS ADMINISTRATION

1ST YEAR 1ST SEMESTER 2023/2024 ACADEMIC YEAR

MAIN & KISUMU CAMPUS

COURSE CODE: BEN 2121

COURSE TITLE: INTRODUCTION TO MACROECONOMICS

DATE: 02/05/2024

EXAM SESSION: 14.00 – 16.00 PM

TIME: 1 ½ HOURS

Instructions

- 1. Answer Question ONE and any other TWO**
- 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.**

QUESTION ONE

(a) Explain why the accelerator model of investment also helps us understand the large fluctuations in the levels of desired inventory investment. (10 marks)

(b) In a closed economy with no government, the equilibrium level of income is Kshs 22 billion, the full employment level of income Kshs £25 billion. To reach full employment would require an injection of Kshs.1 billion.

What can be deduced from this information? (10 marks)

(c) The strength of the dollar in foreign money markets always affect the inflation rate. Discuss (10 marks)

QUESTION TWO

(a) Explain the main difference between a bond and a common stock. (10 marks)

(b) What is the typical relationship among interest rates on 91days Treasury bills and long-term Treasury bonds,? (10 marks)

QUESTION THREE

(a) Discuss the advantages and disadvantages of having a global currency. (10 marks)

(b) An hypothetical closed economy has a national income model of the form $Y = C + I + G$. When $C = 30 + 0.8Y$, investment and government expenditure are 50 and 80 units respectively.

Required:

Compute the national equilibrium level of income using withdrawals equals injection method assuming the figures are in millions. (10 marks)

QUESTION FOUR

When is unemployment cyclical, frictional or structural? How does the issue of globalization lead to the rise in the unemployment rate? (10 marks)

(b) Economists usually favor free trade because without it, aggregate output suffers and international trade wars can take place and competition among nations is reduced. Explain. (10 marks)

QUESTION FIVE

(a) If consumption in period 1 is Kshs 20000 and income is Kshs 30000 and the same for period 2 stands at Kshs 25000 and Kshs 40000 respectively, find MPC? (10 marks)

(b) Evaluate the view that achieving a target of low inflation is the most important macroeconomic objective. (10 marks)