

SCHOOL OF MATHEMATICS AND ACTUARIAL SCIENCE / SCHOOL OF BUSINESS

SAC 106 / BEN 3111 REGULAR

MACROECONOMICS

QUESTION ONE

- i. The following information relates to the national income statistics of a certain country

ITEMS	SHS (MILLIONS)
Compensation of employees	1200
Net factor income from abroad	-120
Net indirect taxes	140
Profit	1600
Private final consumption expenditure	4000
Net domestic capital formation	900
Rent	100
Interest	600
Mixed income of self employed	900
Net exports	-20
Government consumption expenditure	2000
Operating surplus	
Employers contribution to NSSF	100

Use the income method to Calculate the value of

- GDP at Market price
- GNP at Market price
- NNP at Market price
- NNP at Factor cost

10 Marks

- ii. Use the National Income Model given below to answer the questions that follows

$$Y = C + C + I + G + (X - M)$$

$$C = a + bY \quad \text{Consumption Expenditure}$$

$$I = I \quad \text{Investment Expenditure}$$

$$G = G \quad \text{Government Expenditure}$$

$$X = X \quad \text{Exports}$$

$$M = M_0 - mY \quad \text{Import Function}$$

- Based on the National Income model given above , derive the multiplier equation
 - Calculate the national income equilibrium 10 Marks
- iii. The Government promised to create 500 thousand jobs annually .Discuss the Fiscal policy measures if put in place can achieve these objective 10 Marks

QUESTION TWO

- i. Explain the reasons why there has been an increase of Government expenditure for the last two decades 10 Marks
- ii. The following information was extracted from the Central Bank of Kenya in a given accounting year

Items	Million Ksh
Government Securities	70
Foreign Currency denominated held by Public	80
Metalic Money	100
Demand deposits held by Commercial Banks	120
Paper Currency	600
Time and Saving deposits by Commercial Banks	900
Time and Saving deposits by Non Bank	1000

- a. Determine M0, M1, M2, M3, M3X M3XT 10 Marks

QUESTION THREE

- i. The following information relates to the balance of payment Current account position of a country in a given period of time.

Items	Ksh Millions
Exports	25
Imports	150
Freight Charges	8
Repatriation of profits	7
Interest Payments of foreign loans	5
Grants	10
Foreign Aid	20
Upkeep of high commissions abroad	100
Upkeep of high commissions in Kenya	65

- Prepare the balance of payment account. 10 Marks
- ii. Explain the importance of the national income estimates of a country 10 Marks

QUESTION FOUR

- i. Explain the reasons the mechanisms used by the Central Bank to Supervise commercial banks 10 Marks
- ii. Explain policy measures used by the Central bank of Kenya to control inflationary situation in an economy 10 Marks

QUESTION FIVE

- i. Explain the importance of money in economy 10 Marks
- ii. One of the monetary policy measures is to achieve a higher economic growth, describe the main measures if implemented can achieve this objective 10 Marks