



Riara School of Business
Nurturing business innovators
MAY – AUGUST 2023 TRIMESTER
EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION
DAY/EVENING PROGRAMME
RFN 104: PRINCIPLES OF MACROECONOMICS

DATE: 7TH AUGUST 2023

TIME: 2 HOURS

GENERAL INSTRUCTIONS:

Students are NOT permitted to write on the examination paper during reading time.

This is a closed book examination. Text book/Reference books/notes are not permitted.

SPECIAL INSTRUCTIONS

1. Write your REGISTRATION NO. Clearly on the answer booklet(s).
2. Answer Question One and ANY other TWO questions.
3. Questions in all sections should be answered in answer booklet(s)
4. PLEASE start the answer to EACH question on a NEW PAGE.
5. For the questions, write the number of the question on the answer booklet(s) in the order you answered.
6. Write on both sides of each leaf and indicate number of each question at the top of each page.
7. Write the answers in a paragraph form unless stated otherwise.
8. Marks allocated to each question are shown at the end of the question.
9. All rough work must be done on the answer booklet and crossed through!
10. Use supplementary pages only when you have exhausted those in this book.
11. Fasten the supplementary pages to the inside back cover of this booklet

QUESTION ONE: COMPULSORY (30 MARKS)

- a) A basket contains 300 packets of milk, 200 Kilograms of maize flour and 250 kilograms of Sugar. The prices per unit for different periods are listed below;

Period	Prices (Ksh)		
	Milk	Maize flour	Sugar
2019	45	100	150
2020	50	125	150
2021	55	230	170
2022	65	100	180

- i) For each year, compute the cost of the basket (use 2019 as the base year) **(6 marks)**
ii) Compute the inflation rate of each year **(6 marks)**

- b) i) Define the term balance of payments **(1 mark)**

- ii) Describe the **three** components of the balance of payments accounts. **(9 marks)**

- c) i) Define the term fiscal Policy **(1 marks)**

- ii) Describe the **two** main tools of fiscal policy and show how they are used to stabilize the economy **(6 marks)**

QUESTION TWO

- a) Evaluate **three** causes of inflation and suggest **three mechanisms** of dealing with inflation in the economy. **(12 marks)**

- b) Explain **four** measures used to combat unemployment **(8 marks)**

QUESTION THREE

- a) The following data represents economic transactions of a hypothetical economy with a population of 20 million people:

	KShs. "million"
Government final expenditure	7,950
Consumer expenditure	19,300
Gross domestic capital formation	7,100
Imports of goods and services	10,600
Exports of goods and services	9,500
Transfer payments	875

Required:

Compute:

- i) Gross Domestic Product. **(4 marks)**
 - ii) The contribution of consumption to GDP. **(2 marks)**
 - iii) The savings rate in the economy. **(2 marks)**
 - iv) The GDP per capita. **(2 marks)**
- b) Explain **FIVE** functions of the Central Bank of Kenya **(10 marks)**

QUESTION FOUR

- a) Explain **five** policy measures that an economy can employ to improve productivity. **(10marks)**
- b) Evaluate **two** types of exchange rates regimes **(6 marks)**
- c) Describe **two** determinants of exchange rates **(4 marks)**

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