



“Investing in Africa’s Future”

COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE

NMEC 102: ECONOMIC PRINCIPLES 11

END OF FIRST SEMESTER EXAMINATIONS

NOVEMBER 2022

LECTURER: G. MANDEWO

DURATION: 3 HOURS

INSTRUCTIONS

Answer **Question number 1 and ANY other three questions**. Total possible mark is **100**.

Start **each** question on a new page in your answer booklet.

The marks allocated to **each** question are shown at the end of the question.

Show all your workings.

Credit will be awarded for logical, systematic and neat presentations.

1. (a) Illustrate a circular flow of income and explain the intuition behind injections and withdrawals **[4 Marks]**
(b) Stating your assumptions clearly deduce the multiplier for a two sector model and explain factors that affect production of goods and services **[4 Marks]**
(c) Explain the following concepts

- (i) Paradox of thrift [4 Marks]
- (ii) Per capita Income [4 Marks]
- (iii) Marginal Propensity to Save [4 Marks]
- (iv) The multiplier [4 Marks]
- (v) Government Budget Deficit [4 Marks]
- (d) Illustrate and explain the interdependency of the goods market and the factor market [4 Marks]
- (e) Differentiate between fiscal policy and monetary policy in the context of the ISLM model [8 Marks]

2. (a) Illustrate and explain the difference between inflationary and inflationary gap [5 Marks]

- (b) Make a clear distinction between progressive tax and regressive tax. [5 Marks]

- (c) Distinguish between structural deficit and cyclical deficit. [5 Marks]

- (d) What options does a government have to finance budget deficit? [5 Marks]

3. Explain and Illustrate in diagrams or algebra where possible the following concepts
- (a) Liquidity trap [4 Marks]
 - (b) The crowd out phenomena [4 Marks]
 - (c) Investment Savings Curve [4 Marks]
 - (d) Open Market Operations [4 Marks]
 - (e) Inverse relationship between the price of bonds and interest rates [4 Marks]

4. (a) A farmer grows a bushel of wheat and sells it to a miller for \$1.00. The miller turns the wheat into flour and then sells the flour to a baker for \$3.00. The baker uses the flour to make bread and sells the bread to an engineer for \$6.00. The engineer eats the bread. Use two distinct methods to measure production for this particular activity? [4 Marks]
- (b) Consider an economy described by the following equations:

$$\begin{aligned}
 Y &= C + I + G, \\
 Y &= 5000 \\
 G &= 1000 \\
 T &= 750 \\
 C &= 250 + 0.75(Y - T), \\
 I &= 1,000 - 50r.
 \end{aligned}$$

- i. In this economy, compute private saving, public saving, and national saving. [4 Marks]
- ii. Now suppose that G rises to 1250. Compute private saving, public saving, and national saving. [4 Marks]
- iii. Calculate the tax and government multipliers for this economy

[4 Marks]

- iv. Make additional assumptions and derive equilibrium income for a four sector model. **[4 Marks]**

- 5.(a) Derive the IS and LM curves from first principle **[5 Marks]**
(b) Suggest two factors that will result in a shift of each function and show it. **[5 Marks]**
(c) Demonstrate how monetary policy and fiscal policy may increase output in the context of the ISLM model. **[10 Marks]**
- 6.(a) Make a clear distinction between demand pull and cost push inflation. **[4 Marks]**
(b) Use the quantity theory of money to show that inflation is caused by too much money chasing too few goods. **[10 Marks]**
(c) Suggest practical measures to solve the problem of inflation. **[6 Marks]**
7. (a) Demonstrate the equivalence of the three methods of measuring national output. **[4 Marks]**
(b) Write brief notes on the following concepts
(i) Gross Domestic Product and Gross National Product **[4 Marks]**
(ii) Double counting error **[4 Marks]**
(c) There are two methods of resolving the double counting error. State and demonstrate how each resolves the problem. **[4 Marks]**
(c) Using the expenditure approach explicitly define each category of expenditure **[4 Marks]**

END OF PAPER