PAN AFRICA CHRISTIAN UNIVERSITY

Where Leaders are Made

UNIVERSITY EXAMINATIONS: 2025/2026

EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE IN BUSINESS INFORMATION TECHNOLOGY

BIT 206

BCOM

BBL

PRINCIPLES OF MACROECONOMICS

END TERM EXAMINATION

DATE: AUGUST, 2026 **TIME: 3 HOURS**

INSTRUCTIONS: Question One is Compulsory, Choose Three Other Questions

SECTION A (COMPULSORY)

QUESTION ONE (15 Marks) Compulsory

Kenya has long been regarded as the economic hub of East Africa and a leading member of the East African Community. It has an estimated Gross Domestic Product of over US$ 130 billion making it one of the largest economies in sub-saharan Africa. The agricultural sector remains crucial to Kenya's economy as it employs the largest share of the population. Nevertheless, Kenya

has a significant youth unemployment level. Some of Kenya's major exports include tea, coffee and horticultural products to countries such as Pakistan, Netherlands, Uganda, Tanzania and the United Kingdom while some of its major imports includes petroleum and fuel, machinery and industrial equipment, motor vehicles, pharmaceuticals, electronics etc., from countries such as China, India, United Arab Emirates and many more. Kenya's trade position with some of these countries is largely deficits as imports far exceed the exports, especially China India and the United Arab Emirates

Of late, inflation has generally remained within the target set by the central bank of Kenya. The foreign exchange rate between Kenya and the US has not varied by a big margin with the average quote in the year 2025 being **KSH 128.7 - 129.3 = USD 1.**

Required

a. Explain **THREE** measures that have been adopted by the Central Bank of Kenya to control inflation **(3 Marks)**

b. Discuss **THREE** causes of trade deficits between Kenya and the countries it trades with **(3 Marks)**

c. Define unemployment and discuss **THREE** causes of unemployment in Kenya **(4 Marks)**

d. Explain **THREE** factors that affect the size of the National Income of Kenya **(3 Marks)**

e. If a Kenyan company imported a machine worth **$ 800,000** from the US, apply the average foreign exchange rate in 2025 provided in the scenario to determine the amount of money in Kenyan shillings that the Kenyan company needs to have, to settle this obligation **(2 Marks)**

SECTION B

(ANSWER ANY THREE (3) QUESTIONS IN THIS SECTION)

QUESTION TWO (15 marks)

a. The following quotes have been provided by a bank:

USD 0.6000 - 0.6015 = AUD 1
USD 0.0933 - 0.0935 = MXN 1

Where: USD = US dollar
AUD = Australia Dollar
MXN = Mexican Peso

Required:
Computed a **cross rate** to determine the price of AUD in MXN (where the AUD, is the base currency) (**8 Marks**)

b. Explain any **FOUR** barriers that a multinational company may face as it ventures into a foreign market **(4 marks)**

c. Discuss **THREE** determinants of Foreign Exchange Rates **(3 marks)**

QUESTION THREE (15 marks)

The World Bank classifies Kenya as a lower-middle-income country which places it in the developing economy classification. In Kenya, the agricultural sector plays a vital role in the Kenyan economy as it is the largest employer, providing livelihoods for a large share of Kenya's population, directly or indirectly.

a. Explain **FIVE** characteristics of a developing country **(5 marks)**
b. Discuss **FIVE** determinants of economic development in Kenya **(5 Marks)**
c. Explain **FIVE** roles that the agricultural sector has played in the economic development of Kenya **(5 Marks)**

QUESTION FOUR (15 marks)

a. Inflation is a sustained increase in the general price level of goods and services in an economy over a period of time, resulting in a decrease in the purchasing power of money. Discuss **TWO** types of inflation classified by the rate (or speed)
(2 Marks)

b. Discuss **FIVE** causes of cost-push inflation **(5 Marks)**

c. Within the context of international trade discuss **FIVE** arguments for and **THREE** arguments for and against protection policy. **(8 Marks)**

QUESTION FIVE (15 marks)

Country "B" has reported the following information for the year just ended:

	$ "Billion"
● Earnings from rent	5,000
● Dividends	2,000
● Indirect Taxes	300
● Transfer payments	350
● Net Factor Income from abroad	1,000
● Interests	170
● Retained Earnings	400
● Subsidies	200
● Contributions to pension schemes	500
● Personal income taxes	210
● Corporate taxes	1,200
● Total wages	12,000
● Depreciation	450

Required

Compute the following, for **Country B**

a. Gross Domestic Product (income Approach) **(3 Marks)**
b. Net Domestic Product **(3 Marks)**
c. National Income **(3 Marks)**
d. Personal Income **(3 Marks)**
e. Personal Disposable Income **(3 Marks)**

QUESTION SIX (15 marks)

The table below provides data on two products produced by Bangladesh and Vietnam.

	Clothing (unit)	**Fish (Units)**
	Millions	**Millions**
Bangladesh	50	200

Vietnam	100	600

Required

a. Explain which country has the absolute advantage in producing clothing **(2 Marks)**

b. Discuss which country has the comparative advantage in producing clothing **(8 Marks)**

c. Explain the products that Vietnam should export to Bangladesh **(2 Marks)**

d. Discuss **THREE** barriers that might impede trade between Bangladesh and Vietnam **(3 Marks)**