PAN AFRICA CHRISTIAN UNIVERSITY

SCHOOL OF LEADERSHIP, BUSINESS AND TECHNOLOGY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS AND INFORMATION TECHNOLOGY

BACHELOR OF BUSINESS LEADERSHIP

BACHELOR OF COMMERCE

SEPTEMBER-DECEMBER 2025 TRIMESTER

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS

UNIT CODE: BCM106|BUS2113|BIT206

UNIT TITLE: PRINCIPLES OF MACROECONOMICS

EXAM DATE: TUESDAY 9TH DECEMBER 2025

DURATION: 2 HOURS

TIME: 2:00PM-4:00PM

INSTRUCTIONS:

- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.
- **This exam carries a total of SIX Questions of [15 Marks Each]**
- **Section One (I) is compulsory.**
- **Answer any 3(Three) Questions from Section Two (II)**
- ALL other PAC University examination rules and regulations apply

QUESTION ONE (COMPULSORY – 15Marks)
Case study: Fiscal-Monetary Policy Dilemma

Kenya's macroeconomic environment in 2025 shows mixed signals. Real GDP growth slowed to **3.8 %**, well below the pre-pandemic average of 5.7 %. Inflation climbed to **7.5 %**, driven by higher global fuel prices and a weak shilling. The public-debt-to-GDP ratio stands at **68 %**, with heavy external debt-servicing obligations. The fiscal deficit widened after the government introduced **a** KSh 60 billion infrastructure stimulus to create jobs and modernize county roads.

Meanwhile, the Central Bank of Kenya (CBK) raised the Central Bank Rate (CBR) from 10 % to 12 % to curb inflation and stabilize the exchange rate. Commercial-bank lending rates rose to around 17 %, constraining private-sector credit. The Treasury argues that fiscal expansion is needed to spur growth, while the CBK insists on monetary restraint to preserve price stability. Businesses complain of high financing costs, while households face reduced purchasing power.As the economic advisor to the Cabinet Committee on Economic Coordination, you are required to respond to the following.

QUESTIONS

a) **State and explain** three possible short-term macroeconomic objectives Kenya faces under this dilemma. (3Marks)
b) **Explain** two likely conflicts between expansionary fiscal and tight monetary policy. (3Marks)
c) If the government injects **KSh 20 billion** into the economy with **MPC = 0.75**, **calculate** the total income change and **interpret** the result. (4marks)
d) **Suggest** two coordinated policy mix that could simultaneously promote growth and contain inflation. (3marks)

e). Propose one structural that ensures **inclusive** long-run growth. (2marks)

QUESTION TWO (15 marks)

a) **Briefly outline** four leakages and four injections in an open economy circular flow. (4marks)
b) Given: C = 200 + 0.8Yd, I = 100, G = 150, X = 80, M = 0.1Y. **Determine** the equilibrium national income. (6marks)
c) **Explain** two economic effects of a persistent current-account deficit. (5marks)

QUESTION THREE (15 marks)

a) **Differentiate** between **headline** and **core** inflation. (4marks)
b) The following Consumer Price Index (CPI) data are given:
Base year (2022) = 100; Year 2023 = 112; Year 2024 = 120.**Calculate** the annual inflation rate between 2023 and 2024 and **interpret** the finding. (5marks)
c) **Explain** three anti-inflationary policies appropriate for Kenya in 2025. (6marks)

QUESTION FOUR (15 marks)

a) **List and explain** three major types of unemployment with Kenyan illustrations. (6marks)
b) **Using** Okun's Law ($\Delta Y = -\beta \times \Delta U$), assume potential growth = 6 %, actual growth = 3 %,

$\beta = 2$. **Estimate** the increase in unemployment rate and **interpret** it. (6marks)
c) **Discuss** two supply-side policy that could lower structural unemployment. (3marks)

QUESTION FIVE (15 marks)

a) **Identify** four phases of a business cycle and **describe** the main economic features in each. (8marks)
b) **Explain** two automatic stabilizers that operate during recessions. (4marks)
c) **Discuss** two limitations of stabilization policy in developing economies. (3marks)

QUESTION SIX (15 marks)

a) The Kenyan shilling depreciated from KSh 125/USD to KSh 135/USD. **Calculate** the percentage depreciation and explain its likely effect on the current account. (5marks)
b) **State and explain** two advantages and two disadvantages of a floating exchange-rate system**.** (5marks)
c) **Discuss** one realistic policy the EAC can implement to strengthen regional macroeconomic convergence. (5marks)