PAN AFRICA CHRISTIAN UNIVERSITY

BACHELOR OF INFORMATION TECHNOLOGY

END OF SEMESTER EXAMINATION – ONLINE

DEPARTMENT: BUSINESS

COURSE CODE: BIT 206

COURSE TITLE: MACROECONOMICS

Time: 3 HOURS

Instructions

•***Read all questions carefully before attempting.***

•***Answer FOUR questions out of the SIX Provided***

•***Question ONE is Compulsory***

QUESTION ONE (Compulsory)

a) Explain the difference between nominal GDP and real GDP (2 marks)

b) Discuss whether GDP is an overestimate or an underestimate of all that is produced in a nation (2 marks)

c) Distinguish between positive and normative economics, citing relevant examples. (3 marks)

d) Explain why a nation that does not produce any good or service more efficiently can still be a valued trading partner. (3 marks)

QUESTION TWO

a) Define inflation using a suitable example economy (2 marks)

b) Inflation exerts significant costs on the economy. Specifically, explain how inflation:

   i. causes a misallocation of resources (3 marks)

   ii. discourages savings (2 marks)

   iii. redistributes wealth from lenders to borrowers (3 marks)

QUESTION THREE

a) Use the equation of exchange to explain why a 10 percent increase in the money supply would lead to an almost proportional increase in the price level. (6 marks)

b) Discuss whether a person would demand more money or less money when the nominal interest rate increases to significantly higher levels. (4 marks)

QUESTION FOUR

a) If the government does nothing in the face of a recessionary gap, discuss whether wages and resources prices would be expected to increase or decrease. (2 marks)

b) Highlight four factors that cause an increase in the Demand for Loanable Funds. (4 marks)

c) Outline four factors that cause an increase in the Supply of Loanable Funds (4 marks)

QUESTION FIVE

a) Explain why the long-run aggregate supply curve is drawn as a vertical line and the short-run aggregate supply curve is drawn upward sloping, citing relevant examples. (5 marks)

b) Explain why the long-run effects of a change in foreign tastes are different from the short-run effects. (5 marks)

QUESTION SIX

Discuss the five types of unemployment, citing relevant examples. (10 marks)