



**KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2020 /2021 ACADEMIC YEAR**

SECOND YEAR SECOND SEMESTER EXAMINATIONS

**SPECIAL/SUPPLEMENTARY EXAMINATION
FOR THE DEGREE**

OF

BACHELOR OF COMMERCE

COURSE CODE: ECO 221/ECO205/ECO310

**COURSE TITLE: INTERMEDIATE MACROECONOMICS
DATE: 27TH SEPTEMBER, 2021 TIME:8.00AM – 10.00AM**

INSTRUCTIONS TO CANDIDATES:

Answer Question ONE and any other Two Questions

QUESTION ONE (30 MARKS)

- a) Discuss three ways in which Kenya benefits from participating in International trade. (6marks)
- b) The following information represents the National Income model of an imaginary economy.

$$Y = C + I + G$$

$$C = a + b(Y - T)$$

$$T = d + tY$$

$$I = I_0$$

$$G = G_0$$

Where

$$a > 0; 0 < b < 1$$

$$d > 0; 0 < t < 1$$

T = Taxes, I = Investments, G = Government Expenditure

- (i) Explain the economic interpretation of the parameters a, b, d and t. (4 marks)
- (ii) Find the equilibrium values of Income consumption and taxes (5 marks)
- c) The flexible exchange rate is better at promoting international trade. Do you agree with this statement? Give reasons (6 marks)
- d) Highlight Five problems facing tabulation of national income statistics (5 marks)

QUESTION TWO (20 Marks)

- a. Define the term Monetary Policy (2 marks)
- b. Discuss any four monetary policy instruments used to control and regulate money supply in the economy. (8 marks)
- c. What limits the successful application of monetary policies in developing countries? (10 marks)

QUESTION THREE (20 Marks)

a. Given the Keynesian condition for equilibrium, national income, is $C + I + T = Y$ and that $C = a + bY^d$, where deductible tax $T_d = Y - T$
Derive an expression of Equilibrium national income Y (6 marks)

b. Suppose $C = 100 + 0.85Y$, $I = 100$ and $C = T = 100$. Find equilibrium level of National income. (4 marks).

- c. Explain the roles of foreign aid in developing countries. (10 marks)

QUESTION FOUR (20 MARKS)

- a) Highlight three methods of national income accounting (10 Marks)
- b) Discuss four sector model and give assumption associated with it (10 marks)

QUESTION FIVE (20 MARKS)

- a) Discuss three consumption theories (10 Marks)
- b) Explain Five wheels of economic growth (10marks)