

10



*(Knowledge for Development)*

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2019/2020 ACADEMIC YEAR**

**SECOND YEAR 2ND SEMESTER**  
**MAIN EXAMINATIONS**

**FOR THE DEGREE OF BACHELOR OF SCIENCE IN AGRICULTURAL  
ECONOMICS & RESOURCE MANAGEMENT**

**COURSE CODE:** AEC 211 / *ECO 205.*  
**COURSE TITLE:** INTERMEDIATE MACROECONOMICS


**DATE:** *10/02/2021.*                      **TIME:** *8-10 AM.*

---

**INSTRUCTIONS TO CANDIDATES**

Answer all Questions in section A and any other two (2) Questions in section B.

TIME: 2 Hours

This paper consists of 2 printed pages. Please Turn Over 

KIBU observes ZERO tolerance to examination cheating

**Q1.**

Given  $C=20+ 0.4Y^d$ ,  $Y^d=Y-T$ ,  $I=45$ ,  $G=40$ ,  $T=15+0.6Y$ ,  $X= 30$ ,  $M=25+0.2Y$ , Calculate the following and interpret your results

- a) Equilibrium income (4 Marks)
- b) Equilibrium consumption (4 Marks)
- c) The government spending multiplier, (4 Marks)
- d) The tax multiplier, (4 Marks)
- e) The export multiplier, (4 Marks)
- f) The import multiplier, (4 Marks)
- g) The investment multiplier, (4 Marks)
- h) The level of savings (2 Marks)

**Q2.**

The table below shows the value of output (Q) and cost of intermediate goods from various sectors of an economy.

Type of Industry	Value of Output	Cost of Intermediate goods (Ksh)
Farming	1,000	0
Milling	1,300	1000
Baking	2,000	1,300
Retailing	<u>2,500</u>	<u>2,000</u>
	<u>6,800</u>	<u>4,300</u>

**Required**

- a) Explain the value added approach method as used in computation of national income (10 marks)
- b) Using value added approach, calculate the retail price of output(Q). (10 Marks)

**Q3.**

Most developing countries especially the sub-Saharan Africa have not realized the full benefits of International Trade.

**Required:**

- i) Discuss the main reasons why such countries have not realized these benefits. (12 marks)
- j) Explain policy measures that you would recommend to help the countries realize these benefits? (8 Marks)

**Q4.**

- a) Discuss the permanent income theory of consumption, clearly highlighting its assumptions. (10 marks)
- b) Explain the effects of inflation on the Kenyan economy (10 marks)

**Q5**

- a) Distinguish between Gross National and Gross Domestic products and account for the lower values of the former in developing economies. (5 marks)
- b) Define the term per capita income. Show its usefulness and highlight some of its inherent shortcomings. (7 marks)
- c) The table below represents estimated national income values for hypothetical economy X in millions of shillings:

Gross National Product (at market prices)	=	389.2
Depreciation allowance	=	47.0
Indirect taxes less subsidies	=	42.4

Business taxes	=	11.4
Personal income taxes	=	66.3
Government transfers	=	59.3
Retained profits	=	13.0

---

**Required**

Calculate the Net National Product at market price, the Net National Income (at factor cost), Personal Income and the disposable income for this economy **(8 marks)**