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(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)**