



*(Knowledge for Development)*

**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2021 / 2022 ACADEMIC YEAR**

**SECOND YEAR SECOND SEMESTER**

**MAIN EXAM-BBM-EVENNING**

**FOR THE DEGREE OF BACHELOR OF  
COMMERCE / BUSINESS MANAGEMENT / EVENNING**

**COURSE CODE: ECO205 / ECO221**

**COURSE TITLE: INTERMEDIATE MACROECONOMICS.**

**DATE: 17<sup>TH</sup> MAY, 2022**

**TIME: 9.00AM – 11.00AM**

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**INSTRUCTIONS TO CANDIDATES**

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question one carries 30 marks and each of the other two questions carry 20 marks each.

**TIME: 2 Hours**

### QUESTION ONE

- a) Using a well labelled diagram explain the circular flow of income and expenditure in a four sector model economy 6 marks
- b) Explain the essential elements of Ando- Modigliani's life cycle theory of consumption. 6 marks
- c) Explain the relationship between output and employment with regard to the multiplier-accelerator theory 5 marks
- d) Discuss the instruments of central bank of Kenya to determine the supply of money in the economy 5 marks
- e) Give the main functions of money in the economy 5 marks
- f) Explain the classical view of full employment 3 marks

(Total 30marks)

### QUESTION TWO

- a. Explain the following concepts related to employment.
  - i. Frictional Unemployment;
  - ii. Structural Unemployment 8 marks
- b. Explain policy options available for the government in managing unemployment in Kenya 8 marks
- c. How will the following changes affect the national and multiplier?
  - i) An increase in government spending 2marks
  - ii) A decrease in the tax rate 2 marks
  - iii) An increase in the MPC 2 marks

(Total 20 marks)

### QUESTION THREE

We have an IS-LM Model:

- a)  $C = 200 + 0.25YD$
- b)  $I = 150 + 0.25Y - 1000i$
- c)  $G = 250$
- d)  $T = 200$
- e)  $(M/P)^d = 2Y - 8000i$
- f)  $M/P = 1600$

REQUIRED

- a) Derive the IS and LM relations using the identities:  
 $Y = C + I + G$  and  $(M/P)^s = (M/P)^d$  respectively. 8 marks
- b) Using a well labelled diagram explain how changes in money supply affects equilibrium national income 8 marks
- c) Using examples differentiate between exogenous and endogenous variables 4marks

(Total 20 marks)

#### QUESTION FOUR

The following Equilibrium conditions prevail on the goods market, in which there are no increasing inventories and no unsatisfied and hungry consumers:

$$Z = C + I + G \text{ that } Y = Z,$$

$$Y = c_0 + c_1 Y^d + \bar{I} + \bar{G}$$

$$\text{Consumption function } c = 100 + 0.75 Y^d$$

$$\text{Investment } I = 125 - 600i$$

$$\text{Government spending } G = 50$$

$$\text{Tax function } T = 20 + 0.2 Y$$

$$\text{Supply of money } M = 200$$

$$\text{Demand for money } MD = 135 + 0.25 Y - 600i$$

Required

- |    |  |         |
|----|--|---------|
| a) | Determine the consumption multiplier     | 8 marks |
| b) | Determine Y                              | 8 Marks |
| c) | The equilibrium level of national income | 2 marks |

**Total 20 marks)**

#### QUESTION FIVE

- |    |   |          |
|----|---|----------|
| a) | Discuss the main causes of inflation in an economy.   | 8 marks  |
| b) | Illustrate the main policy options a country can adapt to manage inflationary trends in its economy | 12 marks |

**(Total 20 marks)**