



(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: 17TH MAY, 2022

TIME: 9.00AM – 11.00AM

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)