



*(Knowledge for Development)*

**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2020/2021 ACADEMIC YEAR**

**SECOND YEAR FIRST SEMESTER**

**MAIN EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE: ECO 221**

**COURSE TITLE: INTERMEDIATE MACRO-ECONOMICS**

**DATE: 2ND AUGUST, 2021      TIME: 9.00 – 11.00 A.M**

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**INSTRUCTIONS TO CANDIDATES**

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

### QUESTION ONE (COMPULSORY 30 MARKS)

(a) Discuss three monetary policy instruments used to control and regulate money supply in the economy. (6 marks)

(b) Write short notes on;

- i. Consumer Price Index (2 marks)
- ii. Transfer payments (2 marks)
- iii. IS-LM curves (2Marks)

(c) Given the following consumption function:

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

$$\text{Where } C = 100 + 0.75Y_d$$

$$I = 200$$

$$G = T = 100$$

$$Y_d = (Y - T)$$

Find the equilibrium National Income (5 marks)

(d) With the aid of a well labeled Philips curve, explain the relationship between inflation and unemployment(7 Marks)

(e) Explain Keynes THREE motives of holding money (6 marks)

### QUESTION TWO (20 MARKS)

You are given the following IS-LM model

Suppose:

$$\text{Consumption, } C = 50 + 0.9(Y - T_{en})$$

Government net tax revenues

$$\text{(I.e. tax revenue less transfers) } T_{en} = 100$$

$$\text{Investments } I = 150 - 5r$$

$$\text{Government expenditure } G = 100$$

$$\text{Money Demand } M_d = 0.2Y - 10r$$

$$\text{Real money supply } M_s = 100$$

$$\text{Exports } EX = 20$$

$$\text{Imports } IM = 10 + 0.1Y$$

(Where  $Y$ =income,  $r$  = interest rate,)

- i. Find  $IS$  and the  $LM$  equations (7 marks)
- ii. Find equilibrium rate of interest and income ( 8 marks)
- iii. Find the balance of trade ( 5 marks)

**QUESTION THREE(20 MARKS)**

- a. Describe income approach as a method of measuring National income(10 marks)
- b. Explain the importance of National Income statistics in an economy (10 marks)

**QUESTION FOUR(20 MARKS)**

- (a) Differentiate between Nominal GDP and Real GDP ( 4 Marks )
- (b) Discuss the adverse effects of inflation on the economy (6 Marks)
- (c) "A moderate degree of inflation is necessary for efficient economic mobilization"  
.Explain and justify the statement. (10 Marks )

**QUESTION FIVE (20MARKS)**

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;

- i. Equilibrium income(3 Marks)
- ii. Equilibrium consumption(3 Marks)
- iii. The government spending multiplier,(3 Marks)
- iv. The tax multiplier, (3 Marks)
- v. The export multiplier, (3 Marks)
- vi. The import multiplier, (3 Marks)
- vii. The investment multiplier, (2 Marks)