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**(KNOWLEDGE FOR DEVELOPMENT)**

**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2017/2018 ACADEMIC YEAR**

**SECOND YEAR SECOND SEMESTER**

**MAIN EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: ECO 221**

**COURSE TITLE: INTERMEDIATE MACRO – ECONOMICS**

**DATE: 03/08/2018**

**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

a) Distinguish between:

- i) Static and dynamic analysis **(4 marks)**
- ii) stock and flow variables **(4marks)**

b) The government of Kenya is facing a deflationary gap in its budget. As an economic advisor to treasury, what policy would you recommend for adoption to remedy the situation? **(10 marks)**

c) Assume that an economy has the following identities:

$$G = 100$$

$$I = 10 - 0.2r$$

$$T = 200$$

$$C = 300 + 0.35 Y^d$$

$$R = 300$$

$$L = 2000 - 15r, Ms = 1100, L = \text{Money supply}, r = \text{interest rate}$$

$G$  = government expenditure,  $I$  = Investment,  $C$  = consumption,  $R$  = transfer payment

- i) Determine the Investment, tax multiplier and transfer payments multiplier **(6 marks)**
- ii) Determine equilibrium output and interest rate **(6 marks)**

## QUESTION TWO

Since the 2003 economic recovery strategic plan, Kenya embarked on an aggressive infrastructural development programs through increased development expenditure. With clear diagrams, show how this policy is intended to stimulate growth? **(20 marks)**

## QUESTION THREE

- a) Discuss the concept of equilibrium in the money market **(5 marks)**
- b) Show how the money market equilibrium is derived **(7 marks)**
- c) What effect will an expansionary monetary policy have on equilibrium? **(8marks)**

## QUESTION FOUR

- a) Examine any Five determinants of consumption in Kenya **(10 marks)**
- b) International trade plays an important role in promoting economic development, discuss any five benefits that Kenya accrues by being a member of EAC and COMESA **(10 marks)**