KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017 ACADEMIC YEAR

SECOND YEAR 2ND SEMESTER SPECIAL/SUPPLEMENTARY EXAMINATIONS

FOR THE DEGREE OF BACHELOR OF SCIENCE INAGRICULTURAL ECONOMICS & RESOURCE MANAGEMENT

COURSE CODE: ECO 205
COURSE TITLE: INTERMEDIATE MACROECONOMICS

DATE: 19TH SEPT. 2017   **TIME:** 3 PM – 5 PM

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 ▷

SECTION A = 30 MARKS

Q1.

a) The flexible exchange rate is better at promoting international trade. Do you agree with

this statement? Give reasons   (4 marks)

b) Consider a country that has perfect capital mobility and flexible exchange rates. What

monetary-fiscal policy mix should be pursued to off-set the following disturbances

     i)   A gain in exports?   (3 marks)

     ii) A decline in government spending?   (3 marks)

     iii) An increase in capital outflows?   (3 marks)

c) Explain how these policies in (2b) above differ from that of a country with fixed

exchange rates   (4 marks)

d) Briefly explain any three motives for holding money   (6 marks)

e) With the aid of a well labeled Philips curve, explain the relationship between inflation

and unemployment   (7 marks)

SECTION B = 40 MARKS

Q2.

a) Explain five factors determining the rate of interest in an economy   (10 marks)

b) The table below represents economic transactions for country XYZ in billions of shillings:

	Total Output	Intermediate purchases
Agriculture	30	10
Manufacturing	70	45

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Required:

    i) Calculate the Gross Domestic Product of this economy using the value added

approach.   **(3 marks)**

    ii) If depreciation and indirect taxes equal 8 billion and 7 billion shillings

respectively, determine the Net Domestic Product both at market prices and at factor

cost.   **(7 marks)**

Q3.

    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)**

Q4.

Explain the methods of computing national income account, taking precaution of the

necessary adjustments in each case   **(20 marks)**