



*(Knowledge for Development)*

**KIBABII UNIVERSITY  
UNIVERSITY EXAMINATIONS**

**2022/2023 ACADEMIC YEAR**

**SECOND YEAR SECOND SEMESTER**

**MAIN EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF EDUCATION (ARTS)**

**COURSE CODE: ECO 211**

**COURSE TITLE: INTERMEDIATE ~~TO~~ MACROECONOMICS**

**DATE: 10.8.2023**

**TIME: 2.00 - 4.00 PM**

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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**

This Paper Consists of 3 Printed Pages. Please Turn Over. 

**QUESTION ONE**

- a) Explain five major macroeconomics issues that macroeconomists and policy makers have to address (10 marks)
- b) The Kenya National Bureau of statistics has made the following estimates for the Kenyan economy;-

Marginal propensity to consume (MPC) = 0.25, Investment (I) = 5500, Government spending (G) = 12000, Autonomous consumption ( $\alpha$ ) = 1500, Net Exports (X-M) = 3500  
 $Y = C + I + G + X - M$        $C = \alpha + \beta Y$

Required;-

- i. Calculate the equilibrium level of National Income (3 marks)
- ii. Calculate the equilibrium consumption and savings (4 marks)
- iii. Compute a simple investment multiplier and interpret it (3 marks)
- c) Discuss five motives of holding money according to liquidity preference theory (10 marks)

**SECTION TWO**

- a) The commodity and money markets of Kibabii farm, a hypothetical economy are as given below:

Commodity Market

$$Y = C + I$$

$$C = 1000 + 0.8Y$$

$$I = 2000 - 0.75r$$

Money Market

$$L_t = 0.25Y \text{ (Transactions and precautionary demand for money function)}$$

$$L_s = 1000 - 0.5r \text{ (Speculative demand for money function)}$$

$$M_s = 3200 \text{ (Money supply function)}$$

Required:

- i. Mathematically derive both IS and LM curves (6 marks)
  - ii. Derive the equilibrium level of Income and rate of interest (4 marks)
  - iii. If the money supply is increased by 80, what would be the effect on the equilibrium level of income and rate of interest in Kibabii farm economy? (2 marks)
- b) Compare and contrast the permanent income hypothesis and the relative income hypothesis in explaining consumption behavior in a modern developing country such as Kenya. (8 marks)

### QUESTION THREE

- a) Discuss the five main features of the classical macroeconomics (10 marks)
- b) Discuss any five monetary policy measures that can be used to contain inflation being experienced in Kenya (10 marks)

### QUESTION FOUR

- a) Discuss the main arguments and relevance of the liquidity preference theory of demand for money in Kenya (10 marks)
- b) Use the Phillips curve to explain the relation between unemployment and inflation (10 marks)

### QUESTION FIVE

- a) Explain any five indicators of a developing country (10 marks)
- b) Discuss any five measures that can be used by developing countries to address the problem of unemployment (10 marks)