



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

**UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION AND BACHELOR OF LOGISTICS AND SUPPLY CHAIN
MANAGEMENT**

2ND YEAR 2ND SEMESTER 2022/2023 ACADEMIC YEAR

MAIN/SIAYA / NAIROBI CAMPUSES

COURSE CODE: BEB 1204

COURSE TITLE: INTERMEDIATE MACROECONOMICS

DATE:

TIME: 20/12/2022

SESSION: 15.00-17.00PM

TIME: 2 HOURS

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Instructions:

- 1. Answer Question One (COMPULSORY) and any other TWO questions**
- 2. Do not write on the question paper.**

QUESTION ONE

- a) Explain the main instruments used to achieve macroeconomic policy objectives. **(8 Marks)**
- b) Using relevant examples, differentiate the following concepts:
- i. Aggregate demand and aggregate supply. **(2 Marks)**
 - ii. Injections and Withdrawals. **(2 Marks)**
- c) With suitable examples, distinguish between endogenous and exogenous variables in macroeconomic modelling. **(4 Marks)**
- d) Outline underlying factors that affect the level of investment in an economy. **(4 Marks)**
- e) Explain the measures to curb cost push inflation. **(3 Marks)**
- f) Explain how the monetary authority uses Open Market Operations to control money supply in an economy. **(4 Marks)**
- g) Outline the features of a depression phase of business cycles. **(3 Marks)**

QUESTION TWO

- a) Discuss the role of money in an economy. **(5 Marks)**
- b) In a two sector economy, consumption (C) = $900 + 0.8Y$ and investment (I) = 1080.
- i. Determine the equilibrium level of income and consumption. **(5 Marks)**
 - ii. Derive the saving's function and determine the saving at the equilibrium level of income. **(5 Marks)**

- c) Explain the factors that may lead to a decline in the level of economic growth in a country. **(5 Marks)**

QUESTION THREE

- a) Highlight the assumptions of Mundell-Fleming model. **(3 Marks)**
- b) Explain the measures for correcting balance of payments problems faced by most developing countries. **(8 Marks)**
- c) With reference to Mundell- Fleming model, use a diagram to describe the effect of fiscal expansion in an economy under a fixed exchange rate regime. **(9 Marks)**

QUESTION FOUR

- a) Explain the reasons why business firms hold inventories. **(5 Marks)**
- b) The COVID-19 shock has left many countries struggling with several macroeconomic problems such as inflation and unemployment. Explain the measures that can be adopted by the government to ensure employment creation. **(8 Marks)**
- c) Discuss the effects of inflation on business activities in an economy. **(7 Marks)**

QUESTION FIVE

- a) Economists generally agree that household consumption expenditure is a function of income but they are not unanimous on which income i.e absolute or relative or income cycle over life time. Discuss:

i. the weaknesses of relative income hypothesis. **(5 Marks)**

ii. the propositions of life cycle theory of consumption. **(5 Marks)**

- b) The commodity and money markets of a hypothetical economy are defined by the following functions:

$$\text{IS Equation: } Y=100+ 0.6(Y-T) +300- 10r +100 \quad \text{and } T=300$$

$$\text{LM Equation: } 400= 0.6Y - 10r$$

Graph the IS and LM functions showing the equilibrium values of r and Y . **(10 Marks)**