



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR BACHELOR OF LOGISTICS AND SUPPLY
CHAIN MANAGEMENT (BLSCM) AND BACHELOR OF BUSINESS
ADMINISTRATION (With IT) SECOND YEAR SEMESTER ONE
NAIROBI /KISUMU CAMPUS

COURSE CODE: AEC 201

COURSE TITLE: INTERMEDIATE MICROECONOMICS

EXAM VENUE:

STREAM:

DATE: 14/08/19

EXAM SESSION: 2.00 – 4.00PM

TIME: 2 HOURS

INSTRUCTIONS:

1. Answer question 1 (Compulsory) and ANY other THREE questions
2. Candidates are advised not to write on the question paper.
3. Candidates must hand in their answer booklets to the invigilator while in the examination room

QUESTION ONE (COMPULSORY)

- a) Explain why policy makers regard inflation as a problem? (10 marks)
- b) Explain the approaches to measuring output in the economy and state why they should be equal always. (10 marks)
- c) With the aid of a well labeled diagram, what policies can be used to combat cost push and demand pull inflation respectively. (10 marks)

QUESTION TWO

- a) The following equations describe an economy:

Product sector

$$C = 100 + 0.75Y^D$$

$$I = 50 - 25i$$

$$T = G = 50$$

Monetary sector

$$M_t = 0.5Y$$

$$M_{SP} = 105 - 1500i$$

$$M_s = 150$$

- i. Derive the IS curve for this hypothetical economy. (3 marks)
- ii. Derive the LM curve for this same hypothetical economy. (2 marks)
- iii. Using question (i & ii), calculate the joint equilibrium income and interest rate for this hypothetical economy. (6 marks)
- b) Outline the main objectives of monetary policies in Kenya. (9 marks)

QUESTION THREE

- a) Using illustration, explain the Phillip's curve. (5 marks)
- b) By giving its assumptions, explain the theory of the permanent income hypothesis. (15 marks)

QUESTION FOUR

- a) Discuss the strategies that the government of Kenya has instituted to fight the levels of unemployment and hence stimulate economic growth in Kenya. (10 marks)
- b) Why is it often difficult to estimate the levels of unemployment in Kenya? (10 marks)

QUESTION FIVE

- a) By giving its assumptions, discuss David Ricardo's theory of comparative advantage. (10 marks)
- b) Discuss the role of commercial banks in the growth and development of an economy. (10 marks)