



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF LOGISTICS
& SUPPLY CHAIN MANAGEMENT
2ND YEAR 2ND SEMESTER 2019/2020 ACADEMIC YEAR

COURSE CODE: AEC 205

COURSE TITLE: INTERMEDIATE MACROECONOMICS

EXAM VENUE:

STREAM: (BLSCM)

DATE:

EXAM SESSION:

TIME: 2 HOURS

Instructions:

- 1. Answer questions ONE and ANY other 2 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

a) Discuss the relationship between output and investment implied by the accelerator principle. (8marks)

b) Suppose the Kenya economy is represented by the following equations:

$$Y = C + I + G$$

$$C = 700 + 0.8Y^d$$

$$I = 200$$

$$G = 172$$

$$T = 90 + 0.1Y$$

(i) Calculate equilibrium level of income, consumption and tax.

(6marks)

(ii) Now, assume that consumer confidence decreases causing a reduction in autonomous consumption from 700 to 500, find the new equilibrium income. (3marks)

(iii) What is the multiplier for this economy? (3marks)

c) Give a concise description of the functions of the Central Bank of Kenya.

(10marks)

QUESTION TWO

a) Consider a closed economy with no government and no inflation. The following equations represent the investment and saving functions respectively.

The commodity market

$$C = 200 + \frac{2}{5}Y \quad \text{Consumption function}$$

$$I = 1900 - 12r \quad \text{Investment function}$$

The money market

$$M_{DT} = \frac{1}{2}Y \quad \text{Precautionary and transactions demand for}$$

money

$$M_{DS} = 100 - 10r \quad \text{Speculative demand for money}$$

$$M_S = 1500 \quad \text{Money supply}$$

Where r is the rate of interest and Y is national income.

Required:

- (i) Find the equations of the IS and the LM curves. (6marks)
 - (ii) Find the equilibrium national income and the equilibrium rate of interest. (6marks)
- (b) Discuss the essential elements of the Life Cycle Hypothesis of consumer behavior. (8marks)

QUESTION THREE

- (a) Describe clearly the main functions of the commercial banks in your country. (10marks)
- (b) Briefly explain the following terms as used in National Income Accounting:
 - (i) Gross Domestic Product (GDP) (2marks)
 - (ii) Gross National Product (GNP) (2marks)
 - (iii) Net National Income (NNI) (2marks)
 - (iv) National Income at Factor Cost (2marks)
 - (v) National wealth (2marks)

QUESTION FOUR

- a) Discuss the main policy instruments that used to control inflation. (12marks)
- b) Compare and contrast the Keynesian and the classical theories of Money. Would you consider any of these theories relevant to developing economies like Kenya? (8marks)

QUESTION FIVE

- (a) Distinguish between Keynesian range and classical range in relation to monetary policy and fiscal policy effect on equilibrium income and interest rates. (10marks)
- (b) Describe how the constitution of Kenya (2010) addresses the problem of income inequality in the country. (10marks)