



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF AGRICULTURE AND FOOD SCIENCES
SECOND SEMESTER FOURTH YEAR EXAMINATION FOR THE DEGREE OF
BACHELOR OF SCIENCE IN AGRIBUSINESS MANAGEMENT 2019/2020
ACADEMIC YEAR

SIAYA CAMPUS

COURSE CODE: BEN 3426

COURSE TITLE: INTERMEDIATE MACROECONOMICS

EXAM VENUE: STREAM: (BSc. Agribusiness Management)

DATE: EXAM SESSION:

TIME: 2HOURS

Instructions:

- 1. Answer ALL questions in Section A (compulsory) and ANY TWO questions in Section B**
- 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**

SECTION A **[30 MARKS]**

Answer ALL questions from this section

QUESTION ONE

(a) Define the following terms;

- i. Exogenous variable (1mk)
- ii. Induced consumption (1mk)
- iii. Distributed profit (1mk)
- iv. Withdrawal (1mk)
- v. Marginal propensity to save (1mk)

(b) Briefly discuss the main limitations of applying credit control instruments in a developing economy. (6mks)

(c) Illustrate with a diagram and explain the concept of the circular flow of income. (8mks)

(d) Highlight the factors that influence the decision to invest. (4mks)

(e) With regard to fiscal policies, discuss short-run measures a government of a developing country may adopt to ensure sustainable economic growth. (7mks)

QUESTION TWO

a) The per capita income of a hypothetical country increased by 20% from the year 2015 to the year 2018. Despite this increase in per capita income, the residents of the country felt that their living standards were deteriorating.

Required:

Discuss five reasons that might have led to this feeling by the residents. (10 marks)

b) State some of the limitations posed by monetary policies employed by central banks in developing countries. (5mks)

c) Illustrate and explain the phenomenon of liquidity trap. (5mks)

QUESTION THREE

- a) Examine four benefits of a contractionary monetary policy to an economy. (4 marks)
- b) Explain six factors that determine the level of induced investment in an economy. (6 marks)
- c) Distinguish between “depreciation of a currency” and “demonetization of the currency”. (4 marks)
- d) Highlight six possible effects of demonetization of the currency. (6 marks)

QUESTION FOUR

- (a) Briefly discuss the theoretical relationship between money supply and Inflation. (7mks)
- (b) The commodity and money market of a given economy are presented hypothetically below;

Commodity Market

$$Y = C + I \text{ (National Income Function)}$$

$$C = 100 + 0.3Y \text{ (Consumption Function)}$$

$$I = 2000 - 2.1r \text{ (Investment Function)}$$

Money Market

$$L_t = 0.2Y \text{ (Transaction demand for money function)}$$

$$L_s = 10 - 2r \text{ (Speculative demand for money function)}$$

$$M_s = 1,500 \text{ (Money Supply function)}$$

Required

- i. Derive the IS curve (3mks)
- ii. Derive the LM curve (3mks)
- iii. Derive the equilibrium level of income and rates of interest. (3mks)
- iv. If the money supply is increased by 50, what would be the effect on the equilibrium level of income and rate of interest? (4mks)

QUESTION FIVE

(a) Assume the following information represents the National Income model of a "Utopian" economy.

$$Y = C + I + G$$

$$C = a + b(Y - T)$$

$$T = d + tY$$

$$I = I_0$$

$$G = G_0$$

Where $a > 0$; $0 < b < 1$ $d > 0$; $0 < t < 1$

T = Taxes

I = Investment

G = Government Expenditure

Required

- (i) Explain the economic interpretation of the parameters a, b, d, and t. (4mks)
- (ii) Find the equilibrium values of income consumption and taxes. (8mks)
- (b) Discuss the three approaches used in measuring the national income of a country and show why they give the same estimates. (8mks)