JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE AGRIBUSINESS MANAGEMENT

4TH YEAR 1ST SEMESTER 2023/2024 ACADEMIC YEAR

SIAYA CAMPUS

COURSE CODE: AEB 1412

COURSE TITLE: INTERMEDIATE MACROECONOMICS

EXAM VENUE: SIAYA

DATE: 25/04/2024 **EXAM SESSION: 9.00 – 11.00 AM**

DURATION: 2 HOURS

INSTRUCTIONS:

1. **Answer Question ONE (COMPULSORY) 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). Explain the core objectives of macroeconomic policy. **(6 Marks)**

b). A hypothetical economy is described by the following equations:

Savings function,	$S = -50 + 0.2Y^d$
Investment,	$I = 40$
Government expenditure,	$G = 80$
Exports,	$X = 60$
Import function,	$M = 5 + 0.1Y$
Tax function,	$T = 0.2Y$
Transfer payments,	$Tr = 8$

Where Y – National income and Y^d is the National income after tax.

i). Find the equilibrium income **(3 Marks)**

ii). Determine the equilibrium saving **(2 Marks)**

iii). Suppose transfer payments increase by 10, what will be the new level of equilibrium income and how do you explain its effect on the economy? **(3 Marks)**

c). Evaluate the measures that could be adopted to correct balance of payment disequilibrium in developing economies. **(5 Marks)**

d). Using a well labelled diagram explain the concept of a Liquidity trap clearly stating its implications to economic policy. **(4 Marks)**

e). Explain the causes of unemployment in Kenya. **(5 Marks)**

f). Differentiate between monetary policy and fiscal policy. **(2 Marks)**

QUESTION TWO

a). Distinguish between capital and current accounts of the Balance of Payments. **(4 Marks)**

b). Explain the reasons for inventory investment. **(4 Marks)**

c). Discuss the phases of a business cycles. **(8 Marks)**

d). Examine the limitations of macroeconomic models. (4 Marks)

QUESTION THREE

a) Explain the benefits Kenya obtains by trading with other countries across the world. **(5Marks)**

b) Distinguish between consumer price index and GDP deflator. **(4 Marks)**

c) Consider the following specifications for an economy; $C = 100 + 0.70Y^d$; $I = 200 - 6.6r$; $G = 140$; $T = 0.20Y$; $Ms = 240$; $Md = 0.2Y - 2r$ and $P = 3$.

Where C - Consumption, I – Investment, r – interest rate, Y^d - disposable income, T – Tax, G – government expenditure, Md - Money demand, Ms - nominal money supply and P - Price.

Required:

i). Find equilibrium income level and interest rate. **(6 Marks)**

ii). Suppose the economy opens up and Exports and Imports are given as $X = 200$ and $M = 20 + 0.1Y$ where X - imports and M - imports, find new equilibrium income level. **(5 Marks)**

QUESTION FOUR

a). Using an illustration explain the term "Crowding out" effect **(4 Marks)**

b). Distinguish between demand pull inflation and cost push inflation. **(6 Marks)**

c). Unemployment in Kenya has been categorized as one of the most serious economic problems affecting the economy. Using the concept of Phillip's curve explain whether its desirable to use inflation to achieve high rate of employment or not. **(10 Marks)**

QUESTION FIVE

a). Discuss the Keynesian motives of holding money and how it differs from the quantity theory of money **(9 Marks)**

b). Explain the factors that determine the demand for and supply of currency in an economy. **(6 Marks)**

c). In relation to the Mundell-Fleming model, explain the effect of an expansionary fiscal policy under a floating exchange rate regime. **(5 Marks)**

QUESTION SIX

a). Explain the Ando-Modigliani Life Cycle hypothesis of consumption behaviour and show whether such a theory is applicable in the Kenyan context. **(10 Marks)**

b). Discuss the main differences between the accelerator model, the adjustment – cost approach and the q – theory of investment. **(10 marks)**