

**JARAMOGI ODINGA OGINGA UNIVERSITY OF SCIENCE AND
TECHNOLOGY**

UNIVERSITY EXAMINATIONS 2013/14

**SECOND YEAR SECOND SEMESTER EXAMINATIONS FOR THE
DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH
IT**

SECOND YEAR SECOND SEMESTER (AUG 2014)

AEC 205: INTERMEDIATE MACROECONOMICS

BUSIA LEARNING CENTRE

Date: _____ **Time: 2HOURS**

INSTRUCTIONS:

Answer QUESTION ONE and any other TWO questions

QUESTION ONE

a) 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)

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

$$Y = C + I + G$$
$$C = 700 + 0.8Y^d$$
$$I = 120$$
$$G = 172$$
$$T = 90 + 0.1Y$$

- (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

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

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

$M_S = 1500$ 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) Use a graphical panel to discuss the Life Cycle Hypothesis of consumer behavior. (8marks)

QUESTION THREE

- 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 clearly the main functions of the commercial banks in your country. (10marks)

QUESTION FOUR

- a) Discuss the main policy instruments that used to control inflation. (12marks)
- b) Using the Philip's Curve describe the relationship between inflation and unemployment. (8marks)

QUESTION FIVE

From the following data, calculate index numbers for 2014 taking 2013 as the base and using the following methods:

- i. Laspeyre's (5marks)
- ii. Paasche's (5marks)
- iii. Fisher's (5marks)
- iv. Marshall – Edgeworth (5marks)

	2014		2013	
	Price (shs)	Quantity (bags)	Price (shs)	Quantity (bags)
Maize	3200	30	2800	20
Wheat	4000	7	3600	8
Beans	6000	8	5400	5