JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH IT

2RD YEAR 2ND SEMESTER 2019/2020 ACADEMIC YEAR

COURSE CODE: AEC 205

COURSE TITLE: Intermediate Macroeconomics

EXAM VENUE: STREAM: (BBA SCM)

DATE: EXAM SESSION:

TIME: 2 HOURS

Instructions:

1. Answer ALL questions in section A and ANY other 2 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

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

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

$I = 1900 - 12r$ 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) 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)