JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS & ECONOMICS

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

2 NDTYEAR 2ND SEMESTER 2015/2016 ACADEMIC YEAR

KISII CAMPUS-PART TIME

COURSE CODE: AEC 205

COURSE TITLE: INTERMEDIATE MACRO ECONOMICS

EXAM VENUE: LR 17   **STREAM: (BBA)**

DATE:15/12/16   **EXAM SESSION: 9.00 – 11.00 AM**

TIME: 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.) Briefly explain the distinction between macro and micro economics .(8mrks)

b.) Given the following information about an hypothetical economy

        C=120+0.9yd (consumption function).

        I=20   (Investment)

        G=20   (Government expenditure)

        T=0   (Tax)

        X=40   (Export)

        M=20 + 0.5 y (Import function)

Yd is disposable income

Calculate

    i.   The income equilibrium level (4mks)

    ii.   The import function (4mks)

    iii.   The position of trade (2mks)

c.) Distinguish the following terms

    i.   Autonomous and induced consumption (3mks)

    ii.   Balance of trade balance of payment (3mks)

    iii.   Frictional and structural unemployment (3mks)

    iv.   Gross national product(G.D.P)and Net national product (N.N.P) (3mks)

Question two

a.) Define macro-economics and briefly explain any four of its importance in modern times (8mks)

b.) Define consumption function and explain the factors influencing consumption function (10mks)

Question three

a.) Given the following information

        1 = 600 (autonomous investment)

        C = 200 + 0.8Y (consumption function) (4mks)

Calculate:

    The income equilibrium level (4mks)

b.) Explain the theory of demand as given by   Keynes theory of demand for money (6mks)

c.) ''Every supply create its own demand''

Explain and show how the classical economist justified the statement. (mks10)

Question four

a.) Define inflation and explain how effective the monetary policies help in compacting inflation in developing countries. (10mks)

b.) What do you understand by Kynesian principle of effective demand? With a help of a diagram illustrate and explain how full employment equilibrium is attained according to kynes. (10mks)

Question five

a.) Assume that the following information is given from a closed economy with only two sectors i.e. the money market and the commodity market.

$C = 204 + 0.7y$ (consumption function)
$I = 300 - 200i$ (Investment)

$MS = 600$ (Money supply)
$MT = 0.54$ (transactional and precautionary demand for money
$MDS = 248 - 400i$ (speculative demand for money)

i. Derive the equation for the IS and LM Curves, the interest rates and nationally income that clears both markets. (10mks)

b.) Define unemployment and explain the major causes of unemployment in developing counties. (10mks)