



**JARMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND
TECHNOLOGY
UNIVERSITY EXAMINATIONS**

**SECOND YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE
OF BACHELOR OF BUSINESS ADMINISTRATION**

AEC 205: INTERMEDIATE MACROECONOMICS

Date:

Time:2 HOURS

INSTRUCTIONS

1. Answer Question **ONE** and any other **TWO** questions.
2. Question **ONE** carries **30** marks, the rest **20** marks each
3. Marks will be awarded for being neat, clear and use of relevant illustrations

QUESTION ONE (30marks)

- (a) Explain the methods of computing national income of a country and highlight the necessary adjustments in each case (10marks)
- (b) Succinctly differentiate between the following:
- (i) Flows and Stocks variables with examples (4marks)
 - ii) Structural and Seasonal unemployment (4marks)
 - (iii) Cost push and demand pull inflation (4marks)
- (c) Suppose the behavioral equations and identities for an open economy are given as:
 $C=100+b(Y-50-tY)$
 $I=50, G=50, X=10, M=5+0.1Y, b=0.8$ and $t=0.25$

Required:

- (i) Specify the endogenous and exogenous variables (2.5marks)
- (ii) Find reduced form of equilibrium equations (3marks)
- (iii) Find equilibrium values of exports (2.5marks)

QUESTION TWO (20marks)

- (a) Explain the determinants of induced investment in an economy (10marks)
- (b) Briefly explain the role of money in the development of an economy (10marks)

QUESTION THREE (20marks)

An economy shows the following features:

Consumption: $C=80+0.8Y^d$ (where Y^d is disposable income)

Tax: $T= 60+0.2Y$ (where Y is national income)

Investment: $I=200-10r$ (where r is interest percentage)

Transfer: $TR= -40$

Government expenditure: $G=160$

Transaction and precautionary demand for money: $M_1=0.4Y$

Speculative demand for money: $M_2=300-20r$

Supply of money (in Ksh.) $M^s=476$

Required:

- (i) Calculate the equilibrium values of Y and r (10marks)
- (ii) Is the government in surplus or deficits (5marks)
- (iii) What is the level of consumption at equilibrium level of income? (5marks)

QUESTION FOUR (20marks)

(a) Write brief notes on the following:

(i) Permanent income hypothesis (PIH) (5marks)

(ii) Life cycle hypothesis (LCH) (5marks)

(b) Explain the argument for protectionism policy in an economy (10marks)

QUESTION FIVE(20marks)

(a) Using IS-LM framework discuss how the government can use both fiscal and monetary policies to increase employment (10marks)

(b) Briefly explain how budget deficits of a country can be reduced (10marks)