

**PART TIME MAIN**

**AEC 205**

**ANSWER QUESTION ONE AND ANY OTHER TWO**

**QUESTION ONE**

- i. Use the National Income Model given below to answer the questions that follows

$$Y = C + I + G + To + (X - M)$$

$$C = a + by$$

$$G = G$$

$$To = T - ty$$

$$I = I$$

$$G = G$$

$$X = X$$

$$M = Mo + mY$$

Where

C – Consumption Function, Yd - Disposable Income, To – Tax Function, G – Government Expenditure, I – Investment Spending, X – Exports, M – Import Function,

- a. Based on the National Income model given above, derive the multiplier equation
  - b. If  $a = 10000$ ,  $T = 2000$ ,  $I = 20000$ ,  $G = 50000$ ,  $b = 65\%$ ,  $t = 5\%$ ,  $X = 1500$ ,  $Mo = 1000$  and  $mY = 15\%$ , 10 Marks
- ii. The Jubille Government promised to create 500,000 jobs annually, explain the main economic policies if implemented can achieve this objective 10 Marks
  - iii. Explain the benefits of having an independent Central bank 10 Marks

**QUESTION TWO**

- i. The following this information relates to the national income estimates of country X

ITEMS	AMOUNT IN MILLIONS
Compensation of employees	10000
Mixed income of self employed	12000
Net factor income from abroad	- 70
Rent	750
Profit	800
Consumption of fixed capital	400
Net indirect taxes	550
Operating surplus	1600

Use the income method to Calculate

- a. GDP at Market Prices
- b. GNP at Market Prices
- c. NNP at Market Prices
- d. NNP at Factor Cost 10 Marks
- ii. Explain the relevancy of Modigliani's life cycle hypothesis theory of consumption 10 Marks

**QUESTION THREE**

- i. Explain the quantitative policy instruments to control money supply in an economy 8 Marks
- ii. In relation to the Keynesian demand for Money theory  $M_d = L_1 + L_2$ 
  - a. Analyze this theory and explain its determinants 6 Marks
  - b. Explain Tobin/ Baumal theory of the demand for money 6 Marks

**QUESTION FOUR**

- i. Explain with relevant examples why there has been an increase in Government expenditure for last decade 10 Marks
- ii. The following table relates to the Balance of payment position of a country Y

Items	Amount \$
Imports	3000
Exports	10000
Foreign Travel	1000
Portfolio Investment into the Country	4000
Foreign Direct Investment into the Country	3000
Tourist Income	8000
Banks deposits outside the Country	2000
Portfolio Investment outside the Country	1000
Direct Investment outside the Country	12200
Insurance payment	200
Freight charges	100
Students Travelling Abroad	3000
Repatriation of Profits by Foreigners in the Country	3000
Banks Deposits in the Country	10000
Statistical Discrepancies	90
Equity holdings by Foreigners	55
Interest Payments on Foreign Loans	400
Grants	900
Aid	100
Upkeep of Embassies Abroad	350
Upkeep of Embassies in the Country	460
SDR	400
Reserves	265

Calculate the Balance of Payment position of this Country

10 Marks

### **QUESTION FIVE**

- i. One of the objectives of Fiscal policy is to achieve a higher economic growth with justice, describe the strategies which can be put in place to achieve this objective 10 Marks
- ii. In every twelve months, the Governor of the Central Bank sends a letter addressed to the cabinet secretary for national treasury. Discuss the main contents of the letter. 10 Marks