MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

SECOND YEAR SECOND SEMESTER EXAMINATIONS FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH INFORMATION TECHNOLOGY

HOMA-BAY CAMPUS-WEEKEND

AEC 205: INTERMEDIATE MACRO-ECONOMICS

Date: 10th December, 2016

Time: 9.00 – 12.00 noon

INSTRUCTIONS:

- Answer question ONE and any other THREE questions.
- Question one carries 30 marks and the rest 20 marks each

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QUESTION ONE

a). Distinguish between personal income and disposable personal income.

(3marks)

b). The information below represents estimated national income values for hypothetical economy X in millions of shillings:

Gross National Product (at market prices)	=	389.2
Depreciation allowance	=	47.0
Indirect taxes less subsidies	=	42.4
Business taxes	=	11.4
Personal income taxes	=	66.3
Government transfers	=	59.3
Retained profits	=	13.0

Based on the information provided, calculate the Net National Product at market price, the Net National Income (at factor cost), Personal Income and the disposable income for this economy

(8 marks)

c). Assume that there is a budget deficit of 50 million Kenya shillings that the government should collect through taxation and spend back into the same economy. If MPS in the economy is 0.2

(i) What will be the change in income due to the two activities? (5marks)

(ii). Explain the circumstance under which change in income for the economy may be less than zero. (4marks)

d). (i). Distinguish between real and nominal variables. (3marks)

(ii).Suppose the price of a packet of unga in the year 2013 was Ksh 45 while in the year 2014 it was Ksh 50. If in the year 2013, Mr. Chukdar lent Ksh 1000 to Mr. Omogo. How much did Mr. Mogo return to Mr. Chukdar in the year 2015 without compromising Chukdar's welfare? (7marks)

QUESTION TWO

Most developing countries especially the sub-Saharan African countries have not realized the full benefits from International Trade.

(a). Discuss the main reasons why such countries have not realized these benefits. (12 marks)

(b). What policy measures would you recommend to help the countries realize these benefits? (8 marks)

QUESTION THREE

a) You are given the following information about the commodity and Money markets of a closed economy without government intervention.

The commodity market

Consumption function: $C = 50 + 2/5 Y$

Investment function: $I = 790 - 21r$

The Money Market

Precautionary and Transactions demand for money: $M_{DT} = 1/6 \, Y$

Speculative demand for money: $M_{DS} = 1200 - 18r$

Money supply: $M_S = 1250$

i)Determine the equilibrium levels of income and interest rate for this economy.

(8 marks)

ii) Using a well labeled diagram, illustrate the equilibrium condition in part (i) above.

(4 marks)

b). With the help of a diagram, derive and explain the shape of LM curve.

(8marks)

QUESTION FOUR

a). Distinguish between cost push and demand pull inflation. (5marks)

b). "Inflation is everywhere and always a monetary phenomenon". Discuss the statement.

(15marks)

QUESTION FIVE

a). Distinguish between expenditure changing and expenditure switching policies of correcting disequilibrium in the balance of payments. (6marks)

b). Which of the two policies will you recommend for less developed economies facing balance of payment deficits. Give reasons for your answer.

(14marks)