



MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

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

CITY CAMPUS – REGULAR

AEC 205: INTERMEDIATE MACRO-ECONOMICS

Date: 29th November, 2016

Time: 9.00 - 12.00 noon

INSTRUCTIONS:

- Answer question ONE and any other TWO questions.



Q1. a) Consider the following four sector model of income determination for Zuhura Republic.

$$Y = C + I + G + \bar{G}_T + (X - M)$$

Given

$$C = 200 + b(Y - T - tY + \bar{G}_T) \quad I = 400\bar{T} = 200X = 40$$

$$\bar{G}_T = 100M = 20 + 0.2Y \quad b = 0.8t = 0.25$$

- i) Characterise the equilibrium national income model. [5 Marks]
- ii) Compute the equilibrium national income. [9 Marks]
- iii) Derive the foreign trade multiplier. [8 Marks]

b) Discuss causes and kinds of Balance of Payment disequilibrium.

[8 Marks]

Q2. Compare and contrast between absolute income hypothesis and relative income hypothesis theories of aggregate consumption. [20 Marks]

Q3. a) Distinguish between cost-push and demand pull inflation. [12 Marks]

b) Explain the following measures of controlling inflation.

i) Monetary measures. [4 Marks]

ii) Fiscal measures [4 Marks]

Q4. Discuss the differences in free and fixed determined exchange rates.

[20 Marks]

Q5. Describe the following instruments of monetary policy.

i) Quantitative measures of monetary control. [10 Marks]

ii) Qualitative or selective credit controls. [10 Marks]