

# **MASENO UNIVERSITY UNIVERSITY EXAMINATIONS 2015/2016**

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

## **MAIN CAMPUS**

**AEC 205: INTERMEDIATE MACRO-ECONOMICS** 

Date: 4th May, 2016

Time: 2.30 - 4.30 pm

#### INSTRUCTIONS:

- Answer question ONE and any other TWO questions.
- Question ONE carries 30 marks. Other questions carry 20 marks.
- Marks will be awarded for being neat, clear and use of relevant illustrations.

MASENO UNIVERSITY

ISO 9061:2008 CERTIFIED



#### QUESTION ONE

(a). Distinguish between the following macroeconomics concepts:

(i). Galloping and creeping inflation.

## **QUESTION ONE**

(ii) Inflation rate and consumer price index.  (iii) Real variables and nominal variables.  (3marks)  b) Assume that data on Kenya's nominal GDP and Retail Price indices are given as below:  Year Nominal GDP Retail Price Index  (USD billion) (1999-2000 = 100)  2013-2014 55000 228.0  2015-2016 65000 251.0  Compute Real GDP and Inflation Rate.  (c) Assume the multiplier for a two-sector economy is computed to be 5 and autonomous consumption is 1000:  (i) Derive the saving model and consumption model for the sector. (6marks)  (ii) Suppose investment in the two sector model in (c) (i) above changes by 200 USD, what will be the change in income and consumption? (4marks)  (iii) Determine the change in savings due to the change in income. (2marks)  (iv) Explain any two factors determining consumption in an economy. (3marks)  QUESTION TWO  (a) Explain the factors that may determine the demand for Kenya shilling.  (b) Distinguish between money market and commodity/capital market and explain their interdependence. (6marks)  (c) Suppose an economy has the following specifications:  C = 100+0.8Y; S = -100+0.2Y; I = 120-5i (where i is % interest); M <sub>s</sub> = 120;  M <sub>d</sub> = 0.2Y-5i (where i is % interest);		(a). Distinguish beta (i). Galloping and o	ween the following	ng macroeconomics concepts:	DOMESTICS TANGESTES			
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site 0.21-51 (where I is 70 interest);	1	C = 100 to 84. 5 to 100 to 27						
Determine:		$M_s = 0.2Y-5i$ (where i is % interest); $M_s = 120$ ;						
	1	Determine:	ore i is 70 interes.	<i>y</i> ,				
(i). The IS curve equation and I M out to account			tion and I M a.m.	Francis Control Control	19500 90-000a			
(II) Income and interest rate at comment 121	1	ii).Income and intere	50000 1745 00000 1000 0000					
(4marks)	i)		or rate or Remersi	equitorium.	(4marks)			

(8marks) (i). Discuss the causes and effects of inflation in an economy, (ii). Assume income statement for a domestic economy in the year 2011 is given

ii). Assume income statement for a domest below:	(Billions of Dollars)	
Items	574	
Exports	504	
Imparts	22,710	
Gross Domestic product	20275.6	
Net regional product	2098.8	
r_diment husiness taxes	2115.2	
Social security payroll taxes	1385.2	
C	2993.2	
Government transfer payment	2474.8	
1		(3 maks)
Personal taxes Required; Compute the economy's		(3 marks)
(a). Gross National Product		(3 mrks)
(h) Canital consumption and		(3parks)
A National Income		0
(d). Disposable income		
Mise encountered to the		on Serve

QUESTION FOUR

(2mrks) (6maks)

(a). Explain the meaning of international trade. (b). Provide an argument for and against international trade

(c). Suppose unit labour requirements for the production of cloth and foodn Kenya and Tanzania are given below:

nd Tanzama are gr	rt −.h	Food
Country	Cloth	2
Kenya	4	8
Tanzania		

If the two countries have sixty four labour hours, basing your argument on the (2Marks) comparative advantage theory:

(i). Determine the pattern of trade between the two countries.

(ii). Draw Kenya's and Tanzania's production possibility frontiers of the same (6marks)

(iii). On the same plane, draw also theworld's production possibili frontier and (4marks) indicate the region showing gains to tade.

> QUESTION FIVE (a). Distinguish between the following terms as used in Macro economics: (4marks)

### **QUESTION FIVE**

- (a). Distinguish between the following terms as used in Macro economics:
- (i). Rational and adaptive expectations. (4marks)
- (ii). Crowding in of Government spending and crowding out of government spending. (4marks)
- (iii). With the help of a well labeled diagram, explain the trade-off between the rate of unemployment and the rate of inflation in the short run. (6marks)
- (iv). Discuss the reasoning behind the slope of the Phillips curve. (6marks)