# 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.

## QUESTION ONE

(a). Distinguish between the following macroeconomics concepts:
(i). Galloping and creeping inflation.
(2marks)

## QUESTION ONE

(a). Distinguish between the following macroeconomics concepts:

(i). Galloping and creeping inflation. (3marks)

(ii).Inflation rate and consumer price index. (3marks)

(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 (USD billion) | Retail Price Index (1999-2000 = 100) |
|------|---------------------------|--------------------------------------|
| 2013-2014 | 55000 | 228.0 |
| 2015-2016 | 65000 | 251.0 |

Compute Real GDP and Inflation Rate. (6marks)

(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. (6marks)

(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); $M_s = 120$; $M_d = 0.2Y-5i$ (where $i$ is % interest);

Determine:

(i). The IS curve equation and LM curve equation. (4marks)

(ii).Income and interest rate at general equilibrium. (4marks)

## QUESTION THREE

(i). Discuss the causes and effects of inflation in an economy. (8marks)

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(ii). Assume income statement for a domestic economy in the year 2011 is given below:

| Items | (Billions of Dollars) |
|---|---|
| Exports | 574 |
| Imports | 504 |
| Gross Domestic product | 22,710 |
| Net national product | 20275.6 |
| Indirect business taxes | 2098.8 |
| Social security payroll taxes | 2115.2 |
| Corporate profits | 1385.2 |
| Government transfer payments | 2993.2 |
| Personal taxes | 2474.8 |

Required; Compute the economy's

(a). Gross National Product (3 marks)

(b). Capital consumption allowance (3 marks)

(c). National income (3 marks)

(d). Disposable income (3 marks)

## QUESTION FOUR

(a). Explain the meaning of international trade. (2marks)

(b). Provide an argument for and against international trade (6maks)

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

| Country | Cloth | Food |
|---|---|---|
| Kenya | 2 | 2 |
| Tanzania | 4 | 8 |

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

(i). Determine the pattern of trade between the two countries. (2Marks)

(ii). Draw Kenya's and Tanzania's production possibility frontiers orthe same plane (Put cloth on the vertical axs). (6marks)

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

## QUESTION FIVE

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

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(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)