MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2015/2016

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

CITY CAMPUS - EVENING

AEC 205: INTERMEDIATE MACRO ECONOMICS

Date: 19th April 2016   Time: 5.30 - 7.30 pm

INSTRUCTIONS:

- Answer question ONE and any other TWO questions.

QUESTION ONE

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(a). Explain the following functions of money:
(i). A store of value.
(ii). A medium of exchange. (2marks)
(2marks)
(b). (i). Explain the reasons for holding money. (4marks)
(ii). With the help of a diagram, distinguish between change in demand for money and change in quantity demanded for money. (4marks)
(c). Assume that the consumer price index for the year 2015 was 120 and that for the year 2016 is 128. If a loaf of bread in the year 2015 was costing 45 shillings, determine the price of the loaf of bread in the year 2016.
(d). (i). Explain with the help of diagrams, the difference between cost push and demand –pull inflation.
(6marks)
(ii). State and explain the fiscal measures of controlling inflation. (6marks)
e) (i) Explain the meaning of "Protectionism" as used in international trade.
(3marks)
(ii). Discuss the factors militating against international trade in Kenya. (3marks)

QUESTION TWO

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:
$C = 50 + 0.4Y$
Investment function:
$I = 750 - 20r$
The Money Market
Precautionary and Transactions demand for money
$M_{DT} = 0.2\ Y$
Speculative demand for money
$M_{DS} = 1200 - 15r$
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). A central bank is largely referred by economists as the bank at the apex with monetary authority. Clearly explain the major functions of a central bank.
(8 marks)

QUESTION THREE

(a). Discuss the life –cycle theory of consumption. (10marks)

(b). Suppose life expectancy of a civil servant is 90 years, retirement age 75 years and his age at the start of working life is 20 years. If annual income of the of the civil servant is Ksh 200,000,

Required:

(i). Determine the civil servant's life time income. (4marks)

(ii). Compute the civil servant's planned working-life consumption expenditure.

(3marks)

(iii). Compute the civil servant's life time savings. (3marks)

QUESTION FOUR

(a). Assuming that an economy is described by the following simultaneous equations; $Y = C + I + G$, $C = 1000 + 0.75Y^d$, $Y^d = Y - T + R$

Note: All variables and characters carry equal connotations used in macro economic analysis.

(i). Determine the economy's equilibrium income. (3marks)

(ii). Establish the economy's balanced budget multiplier. (4marks)

(iii). If income changed by 2000USD, determine the change in consumption and savings due to the change in income. (4marks)

(iv). Determine transfer payment multiplier for the economy and interpret your result. (4marks)

(v). State the zero budgeting theorem and explain its importance to a government of a developing economy. (5marks)

QUESTION FIVE

(a). Define the term Monetary Policy. (2 marks)

(b). Discuss any four instruments of this policy used to control and regulate money supply by the Central Banking Authorities. (12 marks)

(c). What limits the successful application of these tools (in b above) in developing countries? (6 marks)