



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2015/2016

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

HOMABAY CAMPUS

AEC 205: INTERMEDIATE MACRO ECONOMICS

Date: 30th April, 2016

Time: 11.00 - 1.00pm

INSTRUCTIONS:

- **Answer Question ONE and any other TWO.**
- **Question ONE has 30 marks and the rest carry 20 marks each.**



1 (a). Assume the following information represents the National Income Model of an 'Utopian' economy.

$$Y = C + I + G$$

$$C = a + c_1(Y - T)$$

$$T = d + t_1 Y$$

Where $a > 0; 0 < c_1 < 1$

$$d > 0; 0 < t_1 < 1$$

T = Taxes

I = Investment

G = Government Expenditure

- i) Explain the economic interpretation of the parameters a, c_1, d and t_1 . (4 marks)
 - ii) Find the equilibrium values of income, consumption and taxes. (6 marks)
 - iii) Determine the following multipliers: Government expenditure, Investment and Tax multipliers (6marks)
 - (iv). Explain the factors that an investor should consider before undertaking any investment. (4marks)
 - b). Explain the causes of unemployment in an economy. (6marks)
 - c). Explain the determinants of real demand for money. (4marks)
2. (a). With the help of an illustration, show that the contractionary effect of an increase in taxes on income is less than the expansionary effect of an equal increased government spending on goods and services in an economy. (7marks)
- (b). Account for the differences in 2(a) above (3 marks)
- (c) (i). Assume MPC in an economy is 0.75. If transfers in that economy changes by 4 million, what is the change in national income. (2marks)
- (ii). If Government spending changed by 10 million, what is the change in income. (2marks)
- (iii). Comment on the difference in the values computed in (i) and (ii) above (3marks)
- (d). Explain the determinants of investment. (3marks)
3. (a). Distinguish between real and nominal demand for money. (2marks)
- (b). Explain how money accelerates the pace of production and how it contributes to the efficiency of an economic system. (8marks)
- (c). Explain the determinants of money supply in an economy. (4marks)
- (d). Graphically derive the LM curve and explain the relationship between interest rate and income. (6marks)

4. (a) Distinguish between “creeping” and “hyper” inflation. (4 marks)
(b) Discuss the Monetary policy measures that a country can use to control inflation. (10marks)
(c) Explain the consequences of hyper inflation in an economy. (6marks)
5. (a) Discuss the factors which hinder the effectiveness of monetary and fiscal policies in developing countries. (10marks)
(b). Explain the goals of monetary policies. (5marks)
(c). Describe the difficulties in pursuing a policy of stable price level in an economy. (5 marks)