KABARAK   **UNIVERSITY**

EXAMINATIONS

2008/2009 ACADEMIC YEAR

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: **ECON 220**

COURSE TITLE: **INTERMEDIATE MACROECONOMICS**

STREAM: **Y2S2**

DAY: **THURSDAY**

TIME: **5.30 - 7.30 P.M.**

DATE: **9/04/2009**

INSTRUCTIONS:

1.   Answer question **ONE** and any other **TWO** questions.

PLEASE TURN OVER

QUESTION ONE

a)   Distinguish between the following paired concepts:

       i)   Nominal Gross National Product and Real Gross National Product
              (2mks)

       ii)   Gross National Product (GNP) and Gross Domestic Product (GDP).
              (2mks)

       iii)   Actual output and potential output.   (2mks)

b)   Identify the main uses of Gross National Product accounts.   (7mks)

c)   Given the following data of a hypothetical economy (in billions of shillings).

		Shs. (billion)
-	Personal consumption expenditure:	
	• Durable goods	103.5
	• Non durable goods	278.1
	• Services	283.3
-	Gross Private Domestic Investment	151.9
-	Government purchases of goods and services	232.8
-	Exports	107.8
-	Imports	107.1
-	Depreciation	93.8

Required:

       i)   Calculate the GNP   (5mks)

       ii)   Calculate the NNP.   (5mks)

d)   Briefly explain the three approaches of measuring national income. (3mks)

e)   Suppose the level of autonomous investment in an economy is Sh. 200 billion.
       The following saving function is given:

       $S = -80 + 0.25Y$

       Find the equilibrium level of income.   (4mks)

QUESTION TWO

a)   Suppose you are given the following:

Consumption $C = 40 + 0.75(Y – 80)$
Investment $I = 140 – 10i$
Government expenditure $G = 100$
Money demand $M^d = 0.2Y – 5i$
Money supply $M^s = 85$

(i is % interest rate).

Determine:
  i)   The Lm – function   (2mks)

  ii)   The Is – function   (2mks)

  iii) The equilibrium level of income, (Y) and interest rate (r)
                                                                (3mks)

  iv)   Suppose the government increases its expenditure on education by
        Shs. 65, what would be the impact on equilibrium income?
                                                                (3mks)

b)   Explain according to Keynes the reasons behind the households desire to hold
        money balances.   (6mks)

c)   Identify the characteristics that an item should posses so as to be used as money.
                                                                (4mks)

QUESTION THREE

a)   i)   Discuss the absolute income hypothesis.   (6mks)

        ii)   Identify the main properties of absolute income hypothesis. (4mks)

b)   Show that according to the relative income hypothesis, the short-run average
        propensity to consume is greater than the long-run average propensity to
        consume.   (10mks)

QUESTION FOUR

a)   Assuming the following model:

$Y = C + I + G + (x – m)$
$C = a + b(y – T)$
$M = \bar{m} + mY.$

i)   Derive the multiplier assuming tax to be lump-sum.   (5mks)

ii)   Assuming tax to be a function of income determine the equilibrium level of income.   (5mks)

b)   Show that the balanced multiplier is always equal to unity.   (5mks)

c)   The multiplier for a two-sector economy is computed to be 4. Derive the following:

i)   The saving function.   (3mks)

ii)   The consumption function.   (2mks)

QUESTION FIVE

a)   Examine the various types of unemployment.   (6mks)

b)   Explain the cost of unemployment to a nation   (6mks)

c)   Discuss the view that the introduction of a minimum wage in Kenya would increase unemployment among teenagers.   (8mks)