MUEO

MOI UNIVERSITY

OFFICE OF THE DVC ACADEMIC AFFAIRS, RESEARCH AND EXTENSION

UNIVERSITY EXAMINATIONS

2015/2016 ACADEMIC YEAR

THIRD YEAR END OF SEMESTER EXAMINATIONS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

EXAM CODE: ECO 311/BBM 211
EXAM TITLE: INTERMEDIATE MACROECONOMICS

DATE: 14TH APRIL, 2016 **TIME: 9.00 A.M. – 12.00 NOON.**

INSTRUCTION TO CANDIDATES

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DEPARTMENT OF ECONOMICS

ECO 311/BBM 211: INTERMEDIATE MACROECONOMICS

TIME: 3 HOURS

INSTRUCTIONS: Answer question one and any other three.

QUESTION ONE

(a) Explain the methods of measuring National Income of an economy. Discuss the limitations of measurement of National Income. (5m)

(b) Distinguish the following terms as used in the measurement of National Income:

(i) Gross National Product (GNP) and Gross Domestic Product (GDP).

(ii) GNP at Market prices and GNP at factor cost.

(iii) Personal Income (PI) and Personal Disposable Income (PDI). (8m)

(c) The following is a hypothetical Input-Output table for country 'KENYA' with an open economy with only three industries; Ind 1,Ind2 and Ind 3. The figures are in million pounds.

To industry / From Industry	Ind.1	Ind.2	Ind.3	C	G	I	V	E	OUTPUT
Ind. 1	53	105	82.6	137.4	24	4	1	253	660
Ind. 2	25	60.5	88.9	87.6	16	50	-5	52	375
Ind. 3	0	58	4	135	15	39	7	113	371
Import (M)	102	24.5	21.5	205	85	90	2	-	530
Wages (W)	274	76	106	31	195	-	-	-	682
Rent (R)	15	4	0	18	5	-	-	-	42
Profit (P)	140	33	48.3	-	-	-	-	-	221.3
Depreciation((D)	51	14	19.7	-	-	-	-	-	84.7

Required;

Determine the Gross Domestic Product (GDP) using

i) The output approach
ii) The expenditure approach
iii) The income approach (12 Marks)

QUESTION TWO

(a) Outline the Keynesian assumptions in the models of income determination

(b) Suppose an economy is characterized by the following functions (the variables being in billion shillings at constant prices)

$C=15 + \frac{3}{4} Y_d$ (Consumption function)

$T_g = 4 + 1/5\ Y$ (Tax function)

$I_o = 25$ (Investment expenditure)

$M_s = 200$

Where C is consumption, Y_d is disposable income, t is the tax rate, I is investment r is the interest rate, G is government spending, M_d is money demand and M_s is money supply.

i). Derive the IS and LM schedules

ii).Determine the equilibrium level of income (Y) and interest rate r in the economy.

iii).Suppose the government decides against a fiscal expansion and decides to implement a monetary expansion. What increases in the money ~~supply would be~~ required to reach the target of $Y_e = 1000$. What is the government deficit/surplus at that point? **(25 Marks)**

QUESTION THREE

(a) Discuss the steps in the construction of a macroeconomic model. **(13 Marks)**

(b) Construction of an economic model is not a problem the problem is its relevance. Discuss

(12 Marks)

QUESTION FOUR

(a) The recent demands for pay increase by civil servants in Kenya is feared will cause more problems to the economy than the benefit to them. Discuss **(13 Marks)**

(b) Give ~~a comparison~~ between the following consumption theories Absolute Income Hypothesis and the Relative Income Hypothesis and state there relevance to modern macro-economics

(13 Marks)

QUESTION FIVE

Unemployment has proved to be one of the major macroeconomic problems faced by most economies in the world today. Discuss the causes of these problem and high light the possible policy measure that can be adopted to save these economies. **(25 Marks)**

QUESTION SIX

a) Discuss the crowding out effect of fiscal policy and explain what determines its magnitude. **(8 Marks)**

b) Explain the multiplier effect of fiscal policy in an IS – LM frame work. **(7 Marks)**

c) Discuss the factors the affect the effectiveness of a fiscal policy. **(10 Marks).**

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