

- (ii) if government expenditure increases from 200 to 250 and nominal money supply increases from 900 to 1100, what are the new equilibrium income and interest rate? [7 Marks]

### QUESTION TWO

Basing your argument on the British economist John Maynard Keynes view, with appropriate diagrams discuss the demand for money. [15 Marks]

### QUESTION THREE

- (a) Using an appropriate diagram, discuss the circular flow of income concept for a two model sector economy clearly outlining the real flow and flow components. [5 Marks]
- (b) Derive the zero budget multiplier and describe its application in any given economy. [10 Marks]

### QUESTION FOUR

An economy is represented as follows:

$$Y = C + I + G$$

$$C = 4 + 0.95Y_d$$

$$Y = Y - T + R - U - X$$

$$U = -43 + 0.15Y$$

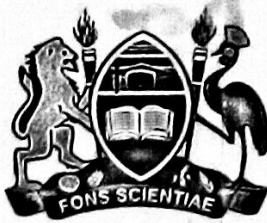
$$X = 31$$

Where  $Y$  = gross national product,  $T$  = Taxes,  $R$  = transfers,  $U$  = undistributed profits,  $Y_d$  = disposal income,  $I$  = Investment,  $G$  = government spending,  $X$  = other items, the magnitude of which are independent of  $Y$  and which must be subtracted from  $Y$  to obtain  $Y_d$ .

Determine the multiplier applicable to  $G$ ,  $R$  and  $I$ . If government expenditure ( $G$ ) decreases by USD 25, transfers ( $R$ ) increases by USD 40 and investment ( $I$ ) increases by USD 20, what will be the change in gross national product with respect to each component? Show your working. [15 Marks]

### QUESTION FIVE

- (a) Distinguish between the Classical and Cambridge views on money demand. [7 Marks]
- (b) Derive and plot the savings function assuming a two sector model economy. [8 Marks]



# KISII UNIVERSITY

## UNIVERSITY EXAMINATIONS

**SECOND YEAR EXAMINATION FOR THE AWARD OF  
THE DEGREE OF BACHELOR OF COMMERCE  
FIRST SEMESTER 2015/2016  
(JANUARY-APRIL, 2016)**

**BBAM 202: INTERMEDIATE MACRO-ECONOMICS**

**STREAM: Y2S1**

**TIME: 2 HOURS**

**DAY: TUESDAY, 12.00 - 2.00 PM**

**DATE: 29/03/2016**

### INSTRUCTIONS

1. Do not write anything on this question paper.
2. Answer question ONE (Compulsory) and any other ~~TWO~~<sup>3</sup> questions.

### QUESTION ONE

(a) Distinguish between the following terms:

(i) Multilateral and bilateral trade.

[2 Marks]

(ii) GDP and GNP.

[2 Marks]

(b)  $C = 200 + 0.75Y_d$

$$I = 200 - 25r$$

$$G = 200$$

$$T = 200$$

$$M^d = 0.5Y - 100r \text{ (Real demand for money)}$$

$$M^s = 900 \text{ (Nominal money supply)}$$

$$P = 2$$

- (i) Derive the IS and LM equation and find the equilibrium level of income and interest rate.

[2 Marks]