(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:

$Y = C + I + G$

$C = 4 + 0.95Y^{d}$

$Y = Y\text{-}T\text{+}R\text{-}U\text{-}X$

$U = -43 + 0.15Y$

$X = 31$

Where Y = gross national product, T = Taxes, R=transfers, U= undistributed profits, Yd= 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 Yd.

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 th 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~~ 3 questions.***

QUESTION ONE

(a) Distinguish between the following terms:

(i) Multilateral and bilateral trade. [4 Marks]

(ii) GDP and GNP. [4 Marks]

(b) $C = 200 + 0.75Y^d$

$I = 200 - 25r$

$G = 200$

$T = 200$

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

$M^s = 900$ (Nominal money supply)

$P = 2$

(i) Derive the IS and LM equation and find the equilibrium level of income and interest rate. [10 Marks]