



UNIVERSITY OF EMBU

2016/2017 ACADEMIC YEAR

SECOND SEMESTER EXAMINATION

FOURTH YEAR EXAMINATION FOR THE DEGREES OF BACHELOR OF SCIENCE
IN AGRIBUSINESS MANAGEMENT

AEB 414: INTERMEDIATE MACROECONOMICS

DATE: APRIL 12, 2017

TIME: 2:00-4:00PM

INSTRUCTIONS:

Answer Question ONE and ANY Other TWO Questions.

QUESTION ONE (30 MARKS)

- a) Define national income and four major problems faced in its computation in developing countries. (5 marks)
- b) Differentiate between Gross Domestic Product (GDP) and Gross National Product (GNP) and explain which is likely to be higher in developing countries, giving reasons. (4 marks)
- c) You are given the following data on payments to factors of production in your country.
Wages = 120, Rent = 40, Interest = 60, Profits = 50, Indirect taxes = 40,
Subsidies = 20, Depreciation = 80, Payments to foreign factors = 30, Factor payments from abroad = 10.

Required:

Compute the following:

- i) Gross national product (GNP) at market prices. (1 mark)
- ii) Net national product (NNP) at market prices. (1 mark)
- iii) Net national product (NNP) at factor cost. (1 mark)
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- iv) Gross domestic product (GDP) at market prices. (1 mark)
- v) Gross domestic product (GDP) at factor cost. (1 mark)
- vi) Net national product (NNP) at factor cost. (1 mark)
- d) Define barter and explain its limitations in a modern economy. (5 marks)
- e) Why benefits can a developing country derive from international trade? (5 marks)
- f) Using the Keynesian cross diagram explain how national income reaches equilibrium. (5 marks)

QUESTION TWO (20 MARKS)

- a) Distinguish between demand-pull and cost push inflation clearly indicating the causes of each type. (8 marks)
- b) Explain the measures that a country facing high levels of inflation might take to bring it under control. (4 marks)
- c) Explain the positive and negative effects of inflation.. (8 marks)

QUESTION THREE (20 MARKS)

- a) Explain the Keynesian liquidity preference (demand for money) theory distinguishing carefully between the motives for holding money. (12 marks)
- b) Discuss the functions of the Central Bank of Kenya other than the formulation of a country's monetary policy. (8 marks)

QUESTION FOUR (20 MARKS)

- a) Define unemployment and indicate how the unemployment rate is measured. (3 marks)
- b) Giving examples explain what is meant by 'natural' unemployment and explain the policies that might be used to reduce this type of unemployment. (9 marks)
- c) Explain the reasons for and the economic effects of minimum wage legislation. (8 marks)

QUESTION FIVE (20 MARKS)

a) The following data in billions of dollars relate to the economy of your country.

Investment = 100, Government spending = 80, exports = 60, imports = 40

autonomous consumption = 120, marginal propensity to save = 0.10.

Required:

- i) Determine the consumption and savings functions and indicate the assumptions made. (4 marks)
- ii) Find the equilibrium level of income. (4 marks)
- iii) Compute the equilibrium level of consumption and savings. (2 marks)
- iv) Define and compute the multiplier. (2 marks)
- v) Assume the full employment level of income is 2,800. Would this economy be experiencing a deflationary or inflationary gap and why? What is the size of the gap and what should the government do to remove it? (4 marks)
- vi) The government decides to increase its expenditure by \$90 billion. Calculate the equilibrium level of income and explain the change, if any. (4 marks)

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