MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

SECOND YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF ARTS IN ECONOMICS, BACHELOR OF SCIENCE IN MATHEMATICS & ECONOMICS, BUSINESS ADMINISTRATION AND BACHELOR OF SCIENCE IN AGRIBUSINESS WITH INFORMATION TECHNOLOGY

MAIN CAMPUS

AEC 205: INTERMEDIATE MACROECONOMICS

Date: 20th June, 2017   Time: 3.30 - 6.30pm

INSTRUCTIONS:
- Answer Question ONE and any other THREE
- Question one caries 25 marks and the rest carry 15 marks each
- Marks will be awarded to students who demonstrate accuracy and clarity of presentations.
- Calculators are allowed in the examination room

QUESTION ONE (COMPULSORY)

a) Explain briefly the three methods of measuring national income. (6 marks)

b) Distinguish between the following terms

    i.   Multilateral and Bilateral trade (2 marks)

    ii.   GDP and GNP (2 marks)

    iii. Aggregate demand and aggregate supply (2 marks)

c) Given that an economy is defined as;

$C = 200 + 0.75Y^d$

$I = 200 - 25r$

$G = 200$

$T = 200$

$M^d = 0.5Y - 100r$ (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. (13 marks)

QUESTION TWO

a) Let $Y = Kshs.2,000, I = Kshs.80, C = 50 + 0.80Y^d, Y^d = Y$. Where I=Investment, C=Consumption, Y=output, Y^d =Disposable income.

    i.   Compute investment multiplier. (6 marks)

    ii.   Find equilibrium output when there is Ksh.20 decrease in investment. (3 marks)

b) Discuss the assumptions of Classical theory of output and employment. (6 marks)

QUESTION THREE

a) Basing your argument on the British economist John Maynard Keynes view, with appropriate diagrams discuss the demand for money. (9 marks)

b) Discuss any three monetary instruments of macroeconomic stabilization. (6 marks)

QUESTION FOUR

a) Using an appropriate diagram, discuss the circular flow of income concept for a two model sector economy clearly outlining injections and leakages (10 marks)

b) Derive the zero budget multiplier and describe its application. (5 marks)

QUESTION FIVE

a) Distinguish between the Classical and Cambridge views on money demand. (6 marks)

b) Derive and plot the savings function assuming a two sector model economy and show that at equilibrium $I = S$. (9 marks)

QUESTION SIX

a) Critically discuss the effect of an increase in marginal propensity to consume (MPC) on the equilibrium level of national income assuming autonomous spending remains constant. (9 marks)

b) Explain the main causes of unemployment in Kenya. (6 marks)