



**TECHNICAL UNIVERSITY OF MOMBASA**  
***Faculty of Business and Social Studies***

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN  
BACHELOR OF BUSINESS ADMINISTRATION  
BACHELOR OF COMMERCE

**BFI 4202: INTERMEDIATE MACRO ECONOMIC THEORY**

END OF SEMESTER EXAMINATIONS

**SERIES: APRIL 2015**

**TIME: 2 HOURS**

**INSTRUCTIONS:**

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

***This paper consists of Three printed pages***

---

**QUESTION 1 (Compulsory)**

- a) Using illustrations explain the following terms as used in macroeconomics:
- i) Permanent income hypothesis. **(3 marks)**
  - ii) The multiplier effect **(3 marks)**
  - iii) Structural unemployment **(3 marks)**
  - iv) Paradox of thrift **(3 marks)**
  - v) Comparative advantage **(3 marks)**

b) Suppose the model of an Economy is given as follows:

$C = 50 + 5 Y_d$  (Consumption expenditure)

$I = 100$  (Investment expenditure)

$G = 50$  (Government expenditure)

$X = 20$  (Exports)

$M = 10 - 0.2Y$  (Imports)

$T = 25$  (Tax function)

- a) Interpret the consumption function. (2 marks)
- b) Determine equilibrium level of national income. (4 marks)
- c) Consumption level at equilibrium level of income. (3 marks)
- d) Total imports at equilibrium income. (3 marks)
- e) Saving function and interpret its. (3 marks)

## QUESTION 2

- a) Distinguish between Gross National Product and Gross Domestic Product. Explain which of the **TWO** is higher and why in a developing country. (7 marks)
- b) Explain the **THREE** conceptual approaches to measuring National Income Figures. (9 marks)
- c) What is the importance of estimating national figures and what are some of the problem encountered in doing so. (4 marks)

## QUESTION 3

- a) Show graphically how IS – LM curves are derived. (7 marks)
- b) Using the IS – LM model show the effects on the equilibrium income and the rate of interest. (6 marks)
- c) What could be the limitation of IS – LM model in a developing country like Kenya. (7 marks)

## QUESTION 4

- a) i) What is meant by the term Balance of Payment? (3 marks)  
ii) Outline the major balances included in this account. (7 marks)
- b) i) Why do most developing countries experience balance of payments problems. (5 marks)  
ii) Suggest some policy measures that these countries may adopt to overcome these problems. (5 marks)

### **QUESTION 5**

- a) Explain fiscal policy and monetary policy. **(6 marks)**
- b) How can the government use its fiscal tools to sustain economic growth? **(7 marks)**
- c) What factors limit the successful application of fiscal policy in a developing country? **(7 marks)**

### **QUESTION 6**

- a) Using suitable diagrams and real world examples, discuss the major causes and effects of inflation on an economy, indicating policies the government can use to control the rate of inflation. **(12 marks)**
- b) Discuss factors associated with the shape of the Aggregate Demand Curve and factors contributing to its shift. **(8 marks)**