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 ECONOMICS THEORY

SPECIAL/SUPPLEMENTARY EXAMINATIONS
SERIES: FEBRUARY 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 Two printed pages

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QUESTION 1 (Compulsory)

Suppose an economy is described by the following functions:
(the variables being in billions of shillings at constant prices)

$$C = 50 + 0.8Yd$$
$$t = 0.2 = (T = 0.2Y)$$
$$I_0 = 70$$
$$(Y_0) = 200$$
$$TR_O = 100$$

a) Estimate:
   i) Equilibrium income   **(8 marks)**
   ii) The multiplier   **(4 marks)**

b) If taxes increased to $t = 0.25$; *compute*,
   i) The new equilibrium income **(3 marks)**
   ii) The new multiplier **(5 marks)**

c) i) What is meant by the multiplier? **(2 marks)**
   ii) State **FOUR** limitations of the multiplier. **(8 marks)**

QUESTION 2

a) Explain Fisher's quantity theory of money. What are the main short comings of this theory?
   (12 marks)

b) Explain the various objectives of the monetary policy in a country. **(8 marks)**

QUESTION 3

a) Derive the IS and LM curve using diagrams. **(10 marks)**

b) Describe the following terms:
   i) Philips curve
   ii) Incomes policy.
   iii) Accelerator principle. **(10 marks)**

QUESTION 4

a) Examine the business cycles in any given economy. **(10 marks)**

b) Examine **FOUR** determinants of economic growth. **(10 marks)**

QUESTION 5

a) Using the Mundell Fleming Model, under flexible exchange rate regime, examine the macro economic impact associated with

   i) Increase in exports **(5 marks)**
   ii) Expansionary fiscal policy **(5 marks)**
   iii) Expansionary monetary policy **(5 marks)**

b) How would the result in (a) (iii) above be different under or fixed exchange rate regime.
   (5 marks)