PAPER B

SCHOOL OF BUSINESS

MANAGEMENT SCIENCE DEPARTMENT

COURSE/CLASS:	BACHELOR OF COMMERCE-BCOM/BBA Y2S2
UNIT CODE:	BFI 4202
UNIT NAME:	INTERMEDIATE MACRO ECONOMICS
SERIES:	MAY, 2016
PAPER DURATION:	2 HOURS
NO OF STUDENTS:	40

INSTRUCTIONS TO CANDIDATES:

Answer question ONE (Compulsory) and any other TWO questions.

Q1(a) Differentiate between the following paired concepts:-

(i) Current Account and Capital Account (2 marks)

(ii) Life cycle hypothesis and permanent income hypothesis (4 marks)

(iii) Inflationary gap and Deflationary gap (4 marks)

(iv) Exogenous and Eudogenous variable (2 marks)

(v) Investment Multiples and Acceleration Principle (4 marks)

(b) Compute the equilibrium and multiplier from the following data

$C = 50n + 0.8y^2$

$I = 70$

$G = 200$

$T = 0.2y$ (6 marks)

(i) Using the IS – LM frame work, determine income and the rate of interest (8 marks)

(ii) Examine **FOUR** factors that may lead to the change of Aggregate supply in an economy (10 marks)

(c) Distinguish between Gross National produced and Gross Domestic Product. Explain which of the two is highest and why in developing countries. (6 marks)

Q2. (a) With reference to Kenya, discuss the problem encountered in the measurement of National Income in developing countries. (6 marks)

(b) Explain the three motives for holding money balances (6 marks)

(c) Discuss the various determinants & money supply in any Economy (3 marks)

Q3. (a) Explain the relationship between inflation and unemployment. (6 marks)

(b) Explain the following kinds of inflation

(i) Demand pull inflation (2 marks)

(ii) Cost push inflation (2 marks)

(c) Write brief notes on the following economics concepts:-

(i) The multiplier (2 marks)

(ii) Autonomous and induced consumption (3 marks)

Q4. (a) Give a critique of the classical quantity theory of money by Keyness (5 marks)

(b) Explain in detail the real theory of interest (5 marks)

(c) Explain how a budget deficit can be resolved according to the classical economists

(5 marks)

Q5. (a) Using the classical crowding out of private investment concept, explain the consequences of the Central Bank of Kenya's decision to lower the minimum amount for investment in treasure bonds from ksh. 1 million to kshs 50,000 on the performance of the Nairobi Stock exchange.

(b) Most developed countries are formulating rescue packages for their economies in the face of the current global financial crisis. Using a well labeled diagram, explain the effectiveness of the fiscal policies and monetary policy in addressing this problem.

(8 marks)