

**TECHNICAL UNIVERSITY OF MOMBASA**

**School of Business**

**DEPARTMENT OF BUSINESS ADMINISTRATION**

UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE  
AND BACHELOR OF BUSINESS ADMINISTRATION

BCOM/BBA (Y2 SEM 2)

**BFI 4202: INTERMEDIATE MACRO ECONOMICS**

SPECIAL SUPPLEMENTARY EXAMINATIONS

**SERIES: SEPT. 2017**

**TIME: 2HRS**

**INSTRUCTIONS:**

- This paper consists of Sections A and B
- Section A is **Compulsory**. Answer any **TWO** questions in Section **B**
- Mobile phones are not allowed into the examination room
- Cheating leads to disqualification
- *This paper consists of Two printed pages*

**QUESTION 1**

A) Critically explain the theory of classical theory giving an example that shows that the economy is self-regulating

(10 marks)

B) In December 2015 the economy of Malindi town had 10,000 people employed, 1000 were unemployed and 5000 were not in the labour force. The following month in January 80 people lost their jobs and did not look for new ones, 20 people quit their jobs and retired, 150 people were hired and 50 people quit their jobs to look for another job within the labour force

- Calculate the unemployment rate for December 2015?
- Calculate the number of people employed, unemployed and the unemployment rate for January 2016

(10 Marks)

C) Briefly Define the following

- (i) Labour Participation rate
- (ii) consumer price index

(iii) real interest rates

(iv) GDP Deflator

(10 Marks)

## QUESTION 2

A) Describe Neo- Classical theory and the similarities that it has to classical theory

(10 Marks)

B) The quantity equation the fisher equation tell us together how money growth affects interest rates. Explain this link using the fisher effect

(10 Marks)

## QUESTION 3

A) Interest rates are the pivotal link that connects the IS and LM curves. Show how the LM curve is derived?

(10 Marks)

B) Examine the effects of monetary policy on the IS-LM curve. How does monetary policy shift the LM curve?

(10 Marks)

## QUESTION 4

A) Determine whether each of the following are examples of expansionary fiscal policy

i) Government decides to fund new job programs designed to put unemployed workers to work  
(5 Marks)

ii) The Central Bank decides to reduce the quantity of money in circulation in an effort to curb high inflation  
(5 Marks)

B) Define Say's Law? Explain the historical origin of this law and how it is a justification of the classical view that the economy will always tend to full employment

(10 marks)

## QUESTION 5

A) Keynes countered classical theory by developing an alternative theory that explained how a depressed economy can be stuck forever in a below-full-employment equilibrium without adequate aggregate expenditures. Using a diagram show how expansionary fiscal policy is used to combat a recession.

(10 Marks)

B) Illustrate how the aggregate demand curve is derived from the aggregate expenditure line

(10 Marks)