TECHNICAL UNIVERSITY OF MOMBASA

Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN
BACHELOR OF COMMERCE

BFI 4200: INTERMEDIATE MACRO ECONOMICS

END OF SEMESTER EXAMINATIONS
SERIES: AUGUST 2013
TIME: 2 HOURS

INSTRUCTIONS:

– Answer Question **ONE (Compulsory)** and any other **TWO** questions.
This paper consists of Two printed pages

QUESTION 1 (Compulsory)

a) **The following data relates to a hypothetical economy.**

$C = 0.75y^d$
$T = 1000$
$I = 3500 – 250 r$
$U = 4500$

$Md/p = 0.5y – 500r$

$Mss = 3000$

Required:

i) Derive the is and LM functions showing Y as a function of r.
(5marks)

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ii)   Compute the short-run equilibrium values of r & y.
(4marks)

b) Differentiate between the following.
   i)   Multiplies and Accelarator.   (3marks)
   ii)   Current Account and Capital Account   (3marks)
   iii) Autonomous consumption & induced consumption.
         (3marks)

c) Examine Four fiscal measures a government may take to combat inflation.   (12marks)

QUESTION 2

a) Examine Four reasons that explain the failure of development plans in Less Developed countries.
                                                                                       (10marks)

b) Examine the motives of holding money balances according to keynes.
    (10marks)

QUESTION 3

a) Examine Four types causes and solutions to unemployment.   (12marks)

b) Explain the role of a budget as a tool to regulate economic activity in a country.   (8marks)

QUESTION 4

a) Discuss the household consumption behaviour due to changes in disposable income in the short run and long-run according to the relative income hypothesis.   (10marks)

b) Consider the following aggregate demand function for a closed economy.

    $A = GtkY$ where   A $\longrightarrow$ Aggregate demand
                                  Y $\longrightarrow$ National Income
                                  k $\longrightarrow$ MPC
                                  G $\longrightarrow$ Government expenditure
                                  T $\longrightarrow$ Tax rate

    Suppose K = 0.8 and t = 0.2,

   i)   Compute the value of government expenditure multiplier and interpret it.   (6marks)
   ii)   Explain why the balanced budget multiplier is equal to unity.   (4marks)

QUESTION 5

a) A country's MPC has been estimated as 0.8; investment in millions of shillings equal to 2000; Government spending 8000, Autonuos consumption 10,000 while net exports equal 2500.

   i)   If tax is given as T = 750 +0.25y, compute the National Income for this economy
                                                                                       (4marks)

   ii)   Given the short-run linear consumption as $C = a+bY^D$ show that is the long run, there is proportionality between APC & MPC.   (4marks)

b) Examine SIX determinats of investment level in an economy.
    (12marks)