KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS 2015/2016 ACADEMIC YEAR

SECOND YEAR 2ND SEMESTER MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF SCIENCE IN AGRICULTURAL ECONOMICS & RESOURCE MANAGEMENT

COURSE CODE: ECO 205

COURSE TITLE: INTERMEDIATE MACROECONOMICS

DATE: 29TH APRIL 2016   **TIME: 9AM – 11AM**

INSTRUCTIONS TO CANDIDATES

Answer all Questions in section A and any other two (2) Questions in section B.

TIME: 2 Hours

This paper consists of 2 printed pages. Please Turn Over ▶

SECTION A = 30 MARKS

Q1.

    a) The flexible exchange rate is better at promoting international trade. Do you agree with this statement? Give reasons **(4 marks)**

    b) Consider a country that has perfect capital mobility and flexible exchange rates. What monetary-fiscal policy mix should be pursued to off-set the following disturbances

        i) A gain in exports? **(3 marks)**

        ii) A decline in government spending? **(3 marks)**

        iii) An increase in capital outflows? **(3 marks)**

    c) Explain how these policies in (2b) above differ from that of a country with fixed exchange rates **(4 marks)**

    d) Explain any three motives for holding money **(6 marks)**

    e) With the aid of a well labeled Philips curve, explain the relationship between inflation and unemployment **(7 marks)**

SECTION B = 40 MARKS

Q2.

  a) Explain five factors determining the rate of interest in an economy **(10 marks)**

  b) The table below represents economic transactions for country XYZ in billions of shillings:

	Total Output	Intermediate purchases
Agriculture	30	10
Manufacturing	70	45
Services	55	25

Required:

(i) Calculate the Gross Domestic Product of this economy using the value added approach.

(3 marks)

(ii) If depreciation and indirect taxes equal 8 billion and 7 billion shillings respectively, determine the Net Domestic Product both at market prices and at factor cost. **(7 marks)**

Q3.

Given $C=20+ 0.4Y^d$, $Y^d=Y-T$, $I=45$, $G=40$, $T=15+0.6Y$, $X= 30$, $M=25+0.2Y$, Calculate the following and interpret your results

i)	Equilibrium income	**(3 Marks)**
ii)	Equilibrium consumption	**(3 Marks)**
iii)	The government spending multiplier,	**(3 Marks)**
iv)	The tax multiplier,	**(3 Marks)**
v)	The export multiplier,	**(3 Marks)**
vi)	The import multiplier,	**(3 Marks)**
vii)	The investment multiplier,	**(2 Marks)**

Q4.

Explain the methods of computing national income account, taking precaution of the necessary adjustments in each case **(20 marks)**