



# **KIBABII UNIVERSITY COLLEGE (KIBUCO)**

## **MAIN CAMPUS**

**UNIVERSITY EXAMINATIONS  
2014 /2015 ACADEMIC YEAR**

**THIRD YEAR FIRST SEMESTER EXAMINATIONS**

**MAIN EXAMINATION (MAIN CAMPUS)**

## **FOR THE DEGREE OF BACHELOR OF EDUCATION**

**COURSE CODE: ECO 205**

**COURSE TITLE: INTERMEDIATE MACROECONOMICS**

**DATE: 22<sup>ND</sup> JANUARY 2015**

**TIME: 8.00 -10.00 A.M.**

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### **INSTRUCTIONS TO CANDIDATES:**

Answer Question ONE and any other Two Questions

TIME: 2 Hours

1. (a) Briefly highlight three methods of national income accounting (8 marks)  
 (b) The national income model for a closed economy with three endogenous variable Y,C and T representing national income, consumption and taxation

$$Y = C + T_o + G_o$$

$$C = C_o + C_1 (Y - T)$$

$$T = t_o + t_1 Y$$

(3 marks)

Find equilibrium (i)  $\bar{Y}$

(3 marks)

(ii)  $\bar{C}$

(3 marks)

(iii)  $\bar{T}$

(4 marks)

(c) Discuss the four Sector model and give the assumptions associated with it. (6 marks)

2. (a) Explain reasons for money demand. (6 marks)

(b) You are given the following IS –LM model: Goods market:

$$Y = C + I$$

$$C = 80 + 0.8Y$$

$$I = 800 - 20r$$

Money market

$$L_{PT} = 0.1Y$$

$$L_S = 1600 - 22r$$

$$M_S = 2000$$

**Where**

Y=National Income

L<sub>PT</sub>=Transaction and precautionary demand

C=Consumption

I=investment

L<sub>S</sub>=Speculative demand

R=interest rate

M<sub>S</sub>=Money Supply

Find (i) IS model equation

(4 marks)

(ii) LM Model equation

(4 marks)

(iii) Equilibrium Y and r

(6 marks)

- 3 (a) Explain the economic effects of inflation

(10 marks)

(b) Discuss how monetary policies are applied in stabilization of an economy.

(10 marks)

- 4 (a) Describe two of the consumption theories.

(10 marks)

(b) Explain the categories of fiscal policy.

(10 marks)

5. (a) Explain the two main accounts in Balance of payments

(10 marks)

(b) Explain Phillips curve in relation to employment

(10 marks)