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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR
SECOND YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
BUSINESS ADMINISTRATION

Date: 9th August, 2019
Time: 9.00am – 11.00am

KFI 202 - INTERMEDIATE MACROECONOMIC THEORY

INSTRUCTIONS TO CANDIDATES

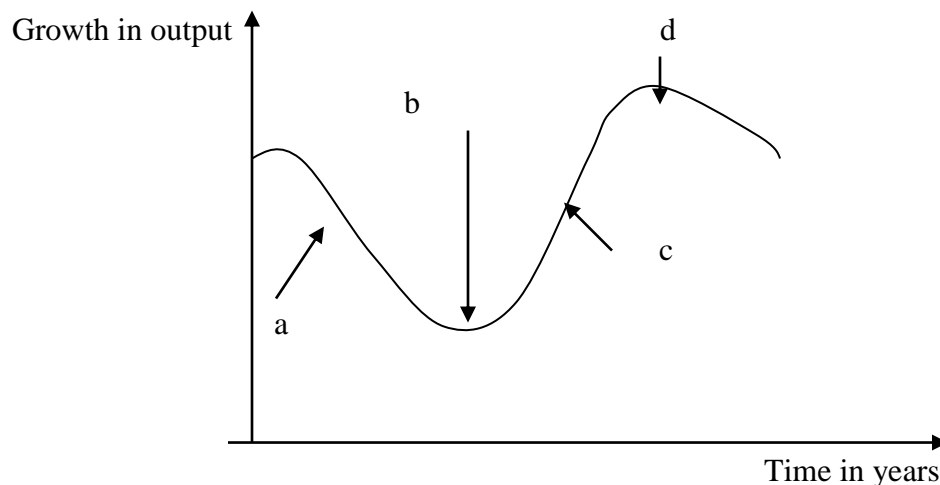
ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

a) Using relevant examples distinguish between stock and flow macroeconomic variables.

(2 Marks)

b) The major role of macroeconomics is that it seeks to explain why fluctuation in economic variables occur and investigate policies that can mitigate (remedy) the fluctuations. The figure below shows the economic fluctuations or the business cycles/phase that an economy undergoes .



i) label parts a,b,c and d

(4 Marks)

ii) What are the main Macroeconomic problems your country is facing currently?
What are the most common business cycles that Kenya has experienced since independence? [use factual data and times periods.]

(4 Marks)

- c) Using diagrams explain the effects of increase in exchange rate on the IS-LM-BP framework. **(7 marks)**
- d) Using the Kenyan situation compare and contrast the capital account and the current account of the balance of payments. **(4 Marks)**
- e) Classical economists argued that in a competitive market system, prices, wages and interest rates would automatically adjust to restore the economy back to full employment level. They also advocated for minimum government intervention. Discuss the Keynesian criticism of this view **(5 Marks)**
- f) Evaluate the relevance of lifecycle income hypothesis in Kenya . **(4 Marks)**

QUESTION TWO (20 MARKS)

- a) Consider an economy that produces and consumes Copper and automobiles. In the following table are data for two years.

	2010		2015	
	Quantity	Price	Quantity	Price
Automobile	100	\$50,000	120	\$60,000
Copper	500,000	\$10	400,000	\$20

Using 2010 as the base year, define, compute and interpret 2015

- i) Nominal **GDP**. **(2 Marks)**
- ii) Real GDP. **(2 Marks)**
- iii) The implicit price deflator for GDP. **(2 Marks)**
- iv) CPI. **(2 Marks)**
- b) Many countries have adopted the flexible exchange rate regime which is determined by forces of demand and supply for foreign exchange. Using the balance of payment analysis and with an aid of diagram explain the collection of balance of payment surplus under a flexible exchange rate. **(5 Marks)**
- c) Explain the effects of fiscal policy in the three ranges of LM curve. **(7 Marks)**

QUESTION THREE (20 MARKS)

- a) The following is information about Kenya employment and unemployment status in 2018 in ('000).

Age	Have a full time job	Have a part time job	Don't have a job but are looking for one	Don't have a job and are not looking for one	Total
<10				150	150
10-15				135	135
16-20	120	30	75	80	305
21-30	20	50	25	20	115
31-50	80	100	55	40	275
51-70	250	50	150	80	530
>70	50	40	30	170	290
Total	520	270	335	675	1800

- i) Determine the size of the labor force in this economy. **(1 Mark)**
- ii) Calculate the Labor Force Participation Rate for this economy. **(1 Mark)**
- iii) Calculate the Unemployment Rate for this economy. **(1 Mark)**
- iv) Calculate the Employment Population Ratio for this economy. **(1 Mark)**
- v) What is the Unemployment Rate for people aged 21-50. **(1 Mark)**
- b) Explain and show graphically the overall effect and what happens to output and the general prices owing to expansionary fiscal or monetary policy
- i) When the economy is at full employment level . **(4 Marks)**
- ii) When the economy is not at full employment level . **(4 Marks)**
- c) Discuss how various monetary policy tools can be used to an economy undergoing a recession. **(7 Marks)**

QUESTION FOUR (20 MARKS)

- a) Over the past few years the Kenya shilling has appreciated in value against the US Dollar moving from an exchange rate of Ksh 103 to Ksh 100 per US dollar. Investigate the factors that have led to of the strengthening of Kenya shilling against the major world currencies like the pound and the US Dollar in the past few years. **(7 Marks)**

- b) Discuss the various macroeconomic opposing views under the following major points of departure
- i) Discretionary Vs Automatic Stabilization. (4 Marks)
 - ii) The demand side Vs the Supply side . (4 Marks)
- c) Discuss the factors that would cause the IS curve to shift to the left. (5 Marks)

QUESTION FIVE (20 MARKS)

- a) Explain the following concepts using illustrations where necessary.
- i) J- Curve p
 - ii) phenomenon. (3 Marks)
 - iii) Q- Theory. (3 Marks)
 - iv) Solow Model. (3 Marks)
 - v) Okun's Law. (3 Marks)
- b) Indicate whether the followings are TRUE FALSE or UNCERTAIN. Explain our answer
- i) Inflation means higher prices so the demand for money rises in the economy . (3 Marks)
 - ii) Given that the permanent income hypothesis describes house holds behavior accurately, a temporally increase in real household income leaves household consumption unaffected. (3 Marks)
 - iii) Unemployment can be voluntary or involuntary to different people. (2 Marks)