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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
SECOND YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 15th December, 2023
Time: 11.30am –1.30pm

KFI 202 - INTERMEDIATE MACRO ECONOMIC THEORY

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) The war between Ukrain and Russia has caused some disturbances in the economy leading to changes in some macroeconomic variables. Assume the war has improved the flow of technical know-how boosting production in the country. Illustrate and discuss the effect of the disturbance on real variables
(10 marks)
- b) Kenyans are currently struggling with high cost of living leading to high demand for money. Discuss Keynesian motive for money demand in the economy
(6 marks)
- c) The just ended drought has caused havoc in most parts of the country slowing down economic activities. Discuss two monetary policies you would suggest to the government to implement in order to boost economic activities in the country
(4 marks)
- d) Assume the following equations for a developing closed economy in Sub-Saharan Africa. Use the equations to respond to the equations below;

$$C=300+0.75Y^d \text{ (Consumption function)}$$

$$I= 100-5r \text{ (Investment function)}$$

$$G= 20 \text{ (Government Purchases)}$$

$$T= 0.2Y \text{ (Tax rate)}$$

$$L = Y-200r \text{ (Real Money Demand)}$$

$$M= 495 \text{ (Real Money Supply)}$$

Required;

- i) Derive the equations for the IS and LM curves for the economy
(5 marks)
- ii) Determine the values of r and y at which the two markets are clearing .
(2 marks)
- iii) Compute the values of C and L
(3 marks)

QUESTION TWO (20 MARKS)

- a) Kenya is currently faced with high unemployment rate. The government in an attempt to resolve the problem has resorted to expansionary fiscal policy. Assume that the economy is not at full employment level. Illustrate and discuss the effect of government action in the economy (6 marks)
- b) As a student taking a macroeconomic course at intermediate level has been over a chance for an internship at a blue chip company, however, before reporting, the management has requested her to write short notes on some terms as used in economic. The terms are as follows;
- i) Nominal and Real GDP (2 marks)
 - ii) Currency appreciation and currency revaluation (2 marks)
 - iii) Monetary and fiscal policy (2 marks)
 - iv) Flexible and fixed exchange rate regimes (2 marks)
 - v) Current and capital account (2 marks)
- c) Discuss two functions of money in the economy. (4 marks)

QUESTION THREE (20 MARKS)

- a) The country has been importing more commodities even the basic ones plunging it into further balance of payment (BOP) deficits. Assume the country operates a flexible exchange rate regime. Illustrate and discuss how the country can get rid of the deficit (10 marks)
- b) Suppose that everyone in the economy at every interest rate decided to save more, would this lead to unemployment? In other words, would the total output change? Explain this statement with the help of a well labelled diagram. (10 marks)

QUESTION FOUR (20 MARKS)

- a) Illustrate and discuss an outward shift of the LM-curve as a result of an expansionary monetary policy in an economy already in liquidity trap (10 marks)
- b) Relative income hypothesis states that consumption is irreversible over time. Discuss how the consumption theory influences consumption pattern by students in Kiriri University. (10 marks)

QUESTION FIVE(20 MARKS)

- a) The high cost of living has affected aggregate demand in the economy leading to a shift of IS-curve to the left. Illustrate and discuss the shift and the factors that have led to this shift (10 marks)
- b) Kenyan government has been implementing macroeconomic policies which do not achieve the intended objectives. Discuss the objectives of macroeconomic policies implemented by the government to influence the economic activities (10 marks)