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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY  
UNIVERSITY EXAMINATION, 2020/2021 ACADEMIC YEAR  
SECOND YEAR, SECOND SEMESTER EXAMINATION  
FOR THE DEGREE OF BACHELOR OF SCIENCE  
(BUSINESS ADMINISTRATION)**

Date: 14<sup>th</sup> December, 2020

Time: 8.30am – 10.30am

**KFI 202 - INTERMEDIATE MICRO ECONOMIC THEORY**

**INSTRUCTIONS TO CANDIDATES**

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**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

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**QUESTION ONE (30 MARKS)**

- a) Differentiate between microeconomic theory and macroeconomic theory. (6 Marks)
- b) Describe how fiscal policy tools can be used to solve macroeconomic problems during depression and inflation periods. (8 Marks)
- c) Explain the conditions that must hold for an economy to operate at full employment level according to classical economists. (6 Marks)
- d) Outline the permanent income hypothesis consumption theory. (6 Marks)
- e) Illustrate IS curve in the open and closed economy. (4 Marks)

**QUESTION TWO (20 MARKS)**

- a) Explain the distinction between the various opposing macroeconomic views. (10 Marks)
- b) Using illustrations, explain the distinction between quantity theory of money and the equation of exchange. (10 Marks)

**QUESTION THREE (20 MARKS)**

- a) Using a proper diagram, discuss the classical crowding-out effect. (10 Marks)
- b) Using an illustration demonstrate the Keynes' view of the labor market. (10 Marks)

**QUESTION FOUR (20 MARKS)**

- a) Using an illustration of equilibrium in the classical labour market, explain the Pigou's suggestion to alleviate unemployment. (10 Marks)
- b) Illustrate and explain the relative income hypothesis consumption theory. (10 Marks)

**QUESTION FIVE (20 MARKS)**

- a) Demonstrate the effects of monetary policy in the three ranges of the LM curve. (10 Marks)
- b) Explain and illustrate the derivation of BP curve. (10 Marks)