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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: 20th April, 2023

KFI 202 - INTERMEDIATE MACRO ECONOMIC THEORY

INSTRUCTIONS TO CANDIDATES

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

QUESTION ONE (30 MARKS)

CASE STUDY

ECONOMIC DEVELOPMENT

One of the priority areas key to the development of any nation is manufacturing and processing industries. With reference to developed countries, their most prioritized sector is industrialization earning them the name-developed country. Targeting this sector has over the years enabled these countries make great strides in terms of economic growth since most products produced are demand-driven thus offering guaranteed markets. This sector should be the most considered in development planning owing to its non-independent nature. Industries require raw materials for both manufacturing and processing. This will require agricultural production as it's the most significant provider of such materials in this way, people especially in the rural areas get engaged in production. To meet the demand for raw materials desired by the industries, there will be the need to use technology so as to increase production. In the process technology use grows along. As production of raw materials facilitates production of finished goods, the latter will necessitate distribution of finished products. In this way, the need to have a convenient transport system is created. Therefore, improvement of infrastructure picks up. Distribution and sales create employment, more small and medium enterprises that not only enable individual sustenance but also a countries growth through taxation picks up. In the long run exportation becomes a possibility and the overall Goss Domestic Product of a country is able to spiral. Importation of most products reduces and is only done when necessary. Despite this key role industrialization can play in steering a countries growth as evidenced in developed countries, the matter tends to be often politicized than practiced.

a) Basing your arguments on this case, explain three sectors that are key to the economic development of a country? **(6 marks)**

b) Outline the benefits of promoting establishment of industries to a country. **(6 marks)**

c) State **SIX** possible drivers of any kind of investment. **(6 marks)**

d) Briefly explain why a country would prefer importation to production in some cases **(6 marks)**

e) Other than political issues, what other factors slow down development of a country? **(6 marks)**

QUESTION TWO (20 MARKS)

a) A hypothetical economy is characterized by the following set of equations

$C^d = 360-200r + 0.1Y$

$I^d = 120 - 400r$

$G = 120$

Required:

i) Find an equation for desired national saving in terms of output (Y) and real interest rate (r) that yields the IS curve **(5 marks)**

ii) What value of the real interest rate clears the goods market when Y = 550, Y= 600 and when Y= 650. **(5 marks)**

b) Using a well labeled diagram, explain the concept stationary state and its implications to an economy **(7 marks)**

c) State **THREE** features of static models **(3 marks)**

QUESTION THREE (20 MARKS)

a) Inflation affects the market equilibrium model. Using the five steps of comparative static analysis in a well labelled diagram, show the effects of this factor on market equilibrium **(6marks)**

b) Explain **FOUR** differences between Keynes and Classical policy recommendations **(8marks)**

c) On the basis of time element, equilibrium and realistic nature, differentiate static models from dynamic models **(6marks)**

QUESTION FOUR (20 MARKS)

a) An economy defined by the following:

$C = 140+0.9(Y^d)$.

This is the consumption function where 140 is autonomous consumption, 0.9 is the marginal propensity to consume, and Yd is disposable income

T = Tax Revenues = 0.3Y;

I = Investment = 400

G = Government spending = 800

X = Exports = 600

M = Imports = 0.15Y

i) Determine the aggregated expenditure function **(7marks)**

ii) Calculate the equilibrium output when the marginal propensity to import is changed to 0.10Y **(5marks)**

b) Discuss **FOUR** reasons why the Keynesian multiplier model is not relevant in developing countries. **(8marks)**

QUESTION FIVE (20 MARKS)

a) Discuss the theories of consumption **(8marks)**

b) Explain four assumptions of Luca’s model of rational expectations **(8marks)**

c) Differentiate the recession phase from the deflation phase of the business cycle **(4marks)**