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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
SECOND YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 16th December, 2022
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)

Country Z is classified as being moderately exposed to the effects of economic crisis with a moderate capacity to respond to crisis. Its economic growth declined from 7.1% to 6.5% in 2020. The economic slow-down was pinned to several occurrence amongst them wars and pandemics. CNN news agency reported that country Z has been experiencing a rapid increase of prices of basic commodities since 2020. The government of country Z has appointed a committee to advise on measures that can be applied to arrest this scenario. In the same year, an economic survey report revealed that the investment of country Z was Kes 3000.

The ministry of economic planning and national development came up with some economic interventions to increase investment by 50% over a three-year period. As of October 2022, the country's consumption was $C = 20 + 0.6Y$. Further the economic survey revealed that about 60% of the youths are un-employed thus increasing dependency ratio and causing lower overall output in the country. The government has authorized the ministry of finance to quickly put measures in place that would see the country to regulate the circulation of money in the economy and salvage the country's economic status.

- a) Explain the causes of hiked basic commodity prices. (6 Marks)
- b) What measures should country Z put in place to curb this scenario. (6 Marks)
- c) What is Country Z's national income? (6 Marks)
- d) Explain how unemployment contributes to the country's reduced economic growth. (6 Marks)
- e) Using graphical illustration, show how interest rates can be used to regulate the circulation of money in country Z (6 Marks)

QUESTION TWO (20 MARKS)

- a) The Keynesian multiplier model is not relevant in developing countries. Discuss four reasons why (8 Marks)
- b) State seven limitations of multiplier effect as applied in Keynesian models. (7 Marks)
- c) Discuss the economic importance of multiplier effect. (5 Marks)

QUESTION THREE (20 MARKS)

- a) An economy defined by the following:

$$C = 80 + 0.25(Y^d).$$

This is the consumption function where 80 is autonomous consumption, 0.25 is the marginal propensity to consume, and Y^d is disposable income

$$T = \text{Tax Revenues} = 0.3Y;$$

$$I = \text{Investment} = 600$$

$$G = \text{Government spending} = 900$$

$$X = \text{Exports} = 400$$

$$M = \text{Imports} = 0.45Y$$

- i) Determine the aggregated expenditure function (8 Marks)
 - ii) Calculate the equilibrium output when the marginal propensity to import is changed to 0.12 (5 Marks)
- b) Using illustrations outline the characteristics of IS-LM graph (7 Marks)

QUESTION FOUR (20 MARKS)

- a) Business cycle is the tendency for output and other parameters to fluctuate around their long-term trends. Using a diagram, describe the different phases of business cycles. (7 Marks)
- b) Explain four differences between Keynes and Classical policy recommendations (8 Marks)
- c) State five features of dynamic models. (5 Marks)

QUESTION FIVE (20 MARKS)

- a) Equilibrium is a key concept in economics. Comparative statics enables the comparison of different equilibrium states that are associated with different sets of values of parameters and exogenous variables. Using a diagram explain the **FIVE** steps of comparative static analysis (8 Marks)
- b) Explain **FOUR** determinants of planned investment spending (8 Marks)
- c) Differentiate between autonomous and induced investment (4 Marks)