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

Date: 4th August, 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)

When the Central Bank uses expansionary monetary policy, the money supply increases whilst the interest rates fall. This is because when money is readily available in the economy due to monetary expansion, the interest rates will fall due to the fact that people will be more willing to make loans as oppose to taking out loans. Reduced interest rates will cause domestic financial and capital assets to become less attractive as a result of their lower real rates of return. In addition to this, foreigners will reduce their position in domestic bonds, real estate, stocks and other assets.

Required;

- a) Describe the two ways to analyze the aggregate economy. (5marks)
- b) Briefly illustrate an equilibrium in the goods market. (5marks)
- c) Explain why the IS curve slope downward. (5marks)
- d) State the essential features of the LM curves. (5marks)
- e) How does microeconomics differ from macroeconomics? (5marks)
- f) Suppose that everyone in the economy at every interest rate decided to save more, would this lead to unemployment? (5marks)

QUESTION TWO (20 MARKS)

- a) Discuss the objective of monetary policy in achieving full employment and price stability
(10 Marks)
- b) Explain the use of fiscal policy tools in solving macroeconomic problems of depression and inflation periods
(10 Marks)

QUESTION THREE (20 MARKS)

- a) Briefly describe with an illustration an equilibrium in classical labour market.
(10 Marks)
- b) Describe Pigou's suggestion to alleviate unemployment
(10 Marks)

QUESTION FOUR (20 MARKS)

- a) Define the following terms;
- i) Exchange rate
 - ii) Flexible exchange rate
 - iii) Fixed exchange rate
 - iv) Devaluation
 - v) Revaluation
(10Marks)
- b) Describe the J curve phenomenon in balance of trade
(10 Marks)

QUESTION FIVE (20 MARKS)

- a) Derive the balance of payment curve clearing showing the surplus and balance of payment deficit.
(10 Marks)
- b) Briefly describe the shifts in the balance of payment curve
(10 Marks)

