



GARISSA UNIVERSITY

UNIVERSITY EXAMINATION **2017/2018** ACADEMIC YEAR **TWO**
SECOND SEMESTER EXAMINATION

SCHOOL OF BUSINESS AND ECONOMICS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: ECO 211

COURSE TITLE: INTERMEDIATE MACROECONOMICS

EXAMINATION DURATION: 3 HOURS

DATE: 13/04/18

TIME: 2.00-5.00 PM

INSTRUCTION TO CANDIDATES

- The examination has **SIX (6)** questions
- Question **ONE (1)** is **COMPULSORY**
- Choose any other **THREE (3)** questions from the remaining **FIVE (5)** questions
- Use sketch diagrams to illustrate your answer whenever necessary
- Do not carry mobile phones or any other written materials in examination room
- Do not write on this paper

This paper consists of **TWO (2)** printed pages

please turn over



QUESTION ONE (COMPULSORY)

(a) Write brief notes on the following economic theories, illustrate and give examples where necessary

- i. The permanent income hypothesis [5 marks]
- ii. Keynesian consumption function [5 marks]
- iii. Liquidity preference theory

(b) Given that the money supply is 1400 units, consumption equation is represented as $c = 120 + 0.7(Y - T)$, investment equation is $I = 200 - 10r$, where r is the real interest rate while Taxes (T) and Government expenditure are 200 units and 400 units respectively. The real money demand function is expressed as $m/p = 0.1y - 100r$ (units in millions)

- i. Solve for equilibrium real output [5 marks]
- ii. Equilibrium interest rate [5 marks]

QUESTION TWO

The central bank and the treasury are the two main macroeconomic policy authorities in Kenya. They share a twin purpose of inducing and managing economic growth trends. Discuss the tools they use and their impact. [15 marks]

QUESTION THREE

- (a) With the aid of a well labeled diagram, discuss the two main causes of inflation [10 marks]
- (b) Identify and explain any two effects of inflation to an economy [5 marks]

QUESTION FOUR

- (a) Discuss the motives of holding money according to liquidity preference theory as put forward by Keynes. [9 marks]
- (b) The central bank of Kenya has decided to reduce the central bank rate substantially to impact on the prevailing economic state. Briefly discuss three ways in which this measure will lead to economic growth and/or growth of business. [6 marks]



QUESTION FIVE

- (a) With the aid of a well-labeled diagram, explain the concept of natural rate of unemployment and its relevance to middle income economies like Kenya. **[9 marks]**
- (b) Discuss any three measures that can be put in place to minimize the occurrences of natural unemployment. **[6 marks]**

QUESTION SIX

- (a) Explain the meaning of the following growth concepts:
- i. Economic growth **[3 marks]**
 - ii. Economic development **[2 marks]**
- (b) Discuss the three main perspectives of economic growth **[6 marks]**
- (c) Economic growth cannot be realized without sufficient augmentation drivers. Discuss any two driving forces behind economic growth of world economies. **[4 marks]**

