GARISSA UNIVERSITY COLLEGE

(A Constituent College of Moi University)

UNIVERSITY EXAMINATION 2016/2017 ACADEMIC YEAR TWO SECOND SEMESTER EXAMINATION

SUPPLEMENTARY/SPECIAL EXAMINATION

SCHOOL OF BUSINESS & ECONOMICS
FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: ECO 211

COURSE TITLE: INTERMEDIATE MACROECONOMICS

EXAMINATION DURATION: 3 HOURS

DATE: 1/10/17   **TIME: 4.00-7.00 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 FOUR (4) printed pages   *please turn over*

QUESTION ONE (COMPULSORY)

(a) What is the difference between macro and microeconomics **[5 marks]**

(b) Using Paasche's method, calculate price index between the years 2015 and 2016 **[5 marks]**

YEAR	2015		2016	
ITEMS	Quantity	Price ($)	Quantity	Price ($)
Rice	2	3	2	4
Maize	5	2	10	1.5
Meat	2	5	1	2.5
Fish	3	1	8	5
Wheat	2	1.5	3	7

(c) Explain the role of fiscal policy in combating inflation by reducing Government expenditure or raising taxes**.** **[5 marks]**

(d) Explain the difference between Gross National and Gross Domestic Products. **[5 marks]**

(e) Keynes thought that monetary policy was ineffective in reviving an economy from depression. Discuss. **[5 marks]**

QUESTION TWO

Study the table below and answer questions that follow;

GDP$_{mp}$
600
Receipt of factor incomes from the rest of the world
150
Payment of factor incomes to the rest of the world
225

Depreciation 800	
Indirect taxes minus subsidies 700	
Corporate Profits 1200	
Dividend 600	
Transfer payments to persons 1300	
Personal taxes 1,500	

(a) Compute personal disposable income. **[4 marks]**

(b) Compute national income **[4 marks]**

(c) Explain the importance of national income statistics in Kenya. **[7 marks]**

QUESTION THREE

(a) Describe the determinants of investment. **[8 marks]**

(b) Suppose in an economy, autonomous investment (I) is Ksh 600 and the following consumption is given;

$C = 200 + 0.8Y$.

Given the above, find out the equilibrium level of income **[7 marks]**

QUESTION FOUR

(a) Define money supply **[3 marks]**

(b) Explain the determinants of money supply in Kenya. **[12 marks]**

QUESTION FIVE

(a) What do you demand pull inflation.

Mean **[3 marks]**

(b) Demand-pull inflation is caused by the Government's insistence on keeping the interest rates low so as to stimulate investment. Elucidate. **[12 marks]**

QUESTION SIX

Write short notes on the following;

    i.   Disequilibrium in the balance of payments **[5 marks]**

   ii.   Objectives of fiscal policy **[5 marks]**

  iii.   Equilibrium in the product market **[5 marks]**