

# BONDO UNIVERSITY COLLEGE

## BACHELOR OF BUSINESS ADMINISTRATION

AEC 205: INTERMEDIATE MACROECONOMICS

YEAR 2 SEMESTER 2 EXAMINATION

INSTRUCTION: **Answer question one** and any other **two** questions

### Question one

Assume the following information represents the national income model of an economy

$$Y = C + I + G$$

$$C = a + b(Y - T)$$

$$T = d + ty$$

$$I = I_0$$

$$G = G_0$$

Where:  $a > 0$ ,  $0 < b < 1$  and  $d > 0$ ,  $0 < t < 1$

T = Taxes

I = Investment

G = Government expenditure

- Explain the economic interpretations of the parameters a, b, d and t (8 mks)
- Find the equilibrium values of income, consumption and taxes (12 mks)
- Explain the three alternative approaches used in estimating the national income of a country (10 mks)

### Question two

- Define the term monetary policy (2 mks)
- Discuss four instruments of this policy used to control and regulate money supply by central banking authorities (8 mks)
- What limits the successful application of these tools (in **b** above) in developing countries (10 mks)

### Question three

- Explain the determinants of economic growth (10 mks)
- Explain the benefits of having an independent Central Bank in an economy (10 mks)

### Question four

- Describe the items in both the current and the capital account of the balance of payment of a country (10 mks)
- Rigorously explain the policy measures for dealing with balance of payment deficit (10 mks)

**Question five**

- a) Discuss the theories of consumption giving their differences (10 mks)
- b) Explain the consequences of unemployment in a town like Kisumu (10 mks)