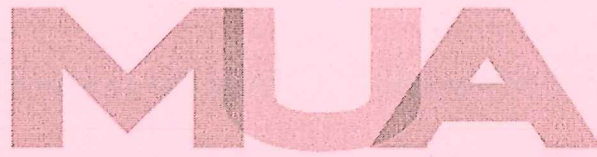


The
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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
BACHELOR IN MANAGEMENT AND LEADERSHIP/BACHELOR
OF COMMERCE

BML 205/BCM 214: MACROECONOMICS

DATE: 9TH APRIL 2019

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **FOUR** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

EUROPE'S RECURRING FINANCIAL CRISIS

The most recent run of this show was performed in spring of 2015. Greece, which had starred in the original pilot back in 2010, could not meet the payments due on its debt. German Finance Minister Wolfgang Schaeuble first lectured Greece on its spendthrift ways and then, according to script, said that Berlin would block any aid until Athens increases taxes and cuts spending sufficiently for its budget to run what is called a "primary surplus" (revenues less costs excluding the expense of debt service) equal to 3.5% of gross domestic product (GDP). Greek Prime Minister Alexis Tsipras, also according to script, refused, pointing out, correctly too, that in the past such efforts have imposed unsupportable hardships on the Greek people. At the last moment, again according to script, he accepted Schaeuble's demands. Berlin allowed Europe to extend the loan, and the crisis quieted as past crises have at this point of the show.

But Berlin knows Greece and others in this predicament cannot keep their austerity promises. Even the International Monetary Fund (IMF) admits that German demands are impossible. Its Europe Department head, Paul Thomsen, explained during this last round of negotiations how the austerity so constrains the economy that revenues fall and demands for social services rise, making deficit reduction an uphill battle at best. In the circumstance, he concluded, the best Greece could achieve is a primary budget surplus of 1.5% of GDP. He went on to quote chapter and verse how past austerity efforts have weakened the Greek economy fundamentally and made its politics more fragile. Certainly available statistics support his argument. The economy has shrunk more than 4% a year in real terms since the efforts began in 2010. Unemployment has risen to over 25%. Youth unemployment verges on 50%.

In all these instances of back and forth over the years, no one --- neither the Germans nor the IMF nor the government in Athens nor the European Union leadership in

Brussels --- have considered the fundamental reform measures that just might get Greece and other problematic EU members out of this seemingly impossible situation.

Required:

- i. Evaluate the role of excess borrowing on the Greek financial crisis
(6 Marks)
- ii. Explain three ways in which the Central banking system could reduce internal borrowing
(10 Marks)
- iii. formulate two arguments why German demands are unrealistic
(9 Marks)

QUESTION TWO

- i. Illustrate the circular flow on income in a two sector economy
(5 Marks)
- ii. Explain two approaches of classifying inflation
(10 Marks)

QUESTION THREE

- i. Illustrate the inflationary gap according to the Keynesian model
(9 Marks)
- ii. List four weaknesses of the Keynesian multiplier concept
(6 Marks)

QUESTION FOUR

- i. Analyze the theory of absolute advantage in international trade
(8 Marks)
- ii. Evaluate four consequences of unemployment
(7 Marks)

QUESTION FIVE

- i. Discuss how tax is used to reduce income inequalities
(6 Marks)
- ii. Illustrate three canons of taxation according to Adam Smith
(9 Marks)

QUESTION SIX

- i. Explain five tools of trade protection **(10 marks)**
- ii. Mention five functions of the central bank **(5 Marks)**