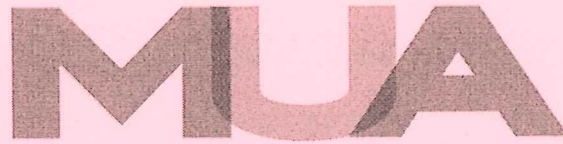


The
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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF MANAGEMENT AND
LEADERSHIP/BACHELOR OF COMMERCE

**BML 205/ BCM 214: MACROECONOMICS/INTERMEDIATE
 MACROECONOMICS**

DATE: 26TH MARCH 2025

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 **THREE** 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:

YOUTH UNEMPLOYMENT IN KENYA

Speak to anyone on the streets of Nairobi and they will tell you they know of at least one skilled youth who is seeking employment but is unable to get decent work. A report released by the Kenya National Bureau of Statistics in 2018 revealed that nine out of every 10 unemployed Kenyans are 35 years and below.

The 2019 Kenya Economic Survey reports a total of 78,400 jobs created in 2018 compared to 114,400 in 2017. This decline in job creation has continued to be felt in 2019, adding to the crisis of youth unemployment in the country. The situation is no different on the global scene. A briefing on the world's economic situation and prospects in 2019 by the United Nations states that young people are twice as likely to be unemployed compared to adults. It puts the global youth unemployment rate at 11.8 percent, a situation that is not expected to change substantially in the near future.

Kenya has the largest youth unemployment rates in the region despite its gross domestic product growing by 6.3 percent last year. The continued emphasis on economic growth despite high unemployment numbers has left many a youth wondering where all the wealth is going.

Their concerns reflect an unequal distribution of wealth in the country, resulting in poor social development. Where is the growth if it is not trickling down to those who need it the most? The expectation of growth as reported by the government comes with the assumption of employment creation more so for the growing number of graduates produced by universities in the country each year. To try to address these expectations, the government has over the last few years invested billions of shillings in programmes, funds and different trainings to support the youth. These include Kazi kwa Vijana, the Youth Enterprise Development Fund and the revamped National Youth Service.

The initiatives have had short-term effects. This is mainly due to their temporal nature and the long bureaucratic procedures for applying for the funds. The initiatives also encompass low-wage seasonal jobs with poor working conditions and little social protection, which do not provide the intended beneficiaries with any

means of securing their future as would salaried, pensionable employment. The question arises, whose job is it anyway to provide access to employment? Many would argue that it is the responsibility of the government, but is that really the case?

The government in its delivery of services has enabled job creation in the public sector. But these alone cannot meet the needs of the citizenry. To cater for all, it should create a conducive environment for the private sector, individuals and others to set up businesses thereby promoting entrepreneurship. Has this been the case? Despite the World Bank's 2020 index placing the country at position 56 out of 190 globally in the ease of doing business, investors still feel like they are getting a raw deal from the government.

At a recent Senate round table with the private sector, high and double taxation coupled with a lack of State support to the private sector were cited as some of the reasons making investors shun the country, resulting in job losses.

The informal sector, which accounts for close to 80 percent of total jobs, also faces similar challenges. Their informal nature means they lack access to adequate financing and more importantly the regulatory support they need to flourish. Employment is driven by the informal sector. One way the government can boost productivity in this sector is by simplifying tax procedures so as to rope the informal businesses into the tax base.

Education levels and their impact on youth access to opportunities and jobs also play a part. Are the youth taking the right courses in university? The continued emphasis on market-driven courses, more so at the university level. Programmes offered should align to current and future market demands. Much of the focus has been on business administration, humanities and the arts at the expense of science-oriented programmes, creating a glut in one sector. A major flaw in our education system is that it does not train learners to embrace innovation, experimentation and entrepreneurial acumen. The focus should not only be on theoretical knowledge but also on equipping learners with practical skills. This will enhance the personal and career development of the youth ensuring they are employable and skilled to create jobs for themselves. (Business Daily)

Required:

- (a) Discuss any five causes of unemployment in Kenya as highlighted in the above case study (10 marks)
- (b) Examine any five efforts by the Kenyan Government to address the problem of youth unemployment (10 marks)
- (c) Examine the extent to which the efforts of government identified in (b) above have been able to solve the problem of youth unemployment (5 Marks)

QUESTION TWO

According to the IS-LM model, what happens in the short run to the interest rate, income, consumption, and investment under the following circumstances? Be sure your answer includes an appropriate graph.

The central bank increases the money supply.

- a. The government increases government purchases. (5 Marks)
- b. The government increases government purchases and taxes by equal amounts. (5 Marks)
- c. The government increases taxes. (5 Marks)

QUESTION THREE

A country's economy follows the Keynesian model with the following functions:

- Consumption function: $C=300+0.75Y_d$
- Investment function: $I=400$
- Government spending: $G=500$
- Taxes: $T=200$

Required:

- a) Derive the equilibrium level of income in the economy. (5 Marks)
- b) Calculate the investment multiplier and explain its economic significance. (5 Marks)

- c) Discuss the relationship between the marginal propensity to consume (MPC) and the effectiveness of fiscal policy. (5 Marks)

QUESTION FOUR

You are given the following information about the commodity and Money markets of a closed economy without government intervention.

The commodity market

Consumption function:

$$C = 50 + 2/5Y$$

Investment function:

$$I = 790 - 21r$$

The Money Market

Precautionary and Transactions demand for money

$$M_{DT} = 1/6 Y$$

Speculative demand for money

$$M_{DS} = 1200 - 18r$$

Money supply

$$M_S = 1250$$

Required:

- i) Determine the equilibrium levels of income and interest rate for this economy. (10 marks)
- ii) Using a well labelled diagram, illustrate the equilibrium condition in part (i) above. (5 marks)

QUESTION FIVE

Country X has been experiencing a trade deficit, and its government is considering devaluing its currency to make exports more competitive. However, businesses are concerned that devaluation might lead to higher inflation.

- a) Evaluate the short-term and long-term effects of currency devaluation on the country's trade balance, domestic production, and inflation. (10 Marks)
- b) Suppose inflation in Country X rises significantly after devaluation. Identify two possible policy measures the government could take to control inflation without reversing the devaluation. (5 Marks)

QUESTION SIX

Governments play a crucial role in economic management through public finance policies, which involve budgeting, taxation, revenue generation, and public debt management. In recent years, many countries have faced challenges in balancing government expenditure with sustainable revenue sources, leading to increased public debt levels.

Required:

- a) Evaluate the impact of different types of budgets on economic stability and growth. (7 Marks)
- b) Discuss how governments can balance taxation policies to enhance revenue generation while minimizing economic distortions. (8 Marks)