

The  
Management  
University  
of Africa



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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 :      MACRO ECONOMICS

DATE:                      7<sup>TH</sup> AUGUST 2023

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:

### REGIONAL INTEGRATION IN AFRICA

While much of Africa has avoided the worst effects of the recession, we face significant risks and uncertainty. The impact of the global turbulence though varying, from region to region, has been a major setback and a threat to our common achievement to date. But, at the same time; much of Africa has demonstrated remarkable resilience.

The reform programmes and economic policies put in place by many African nations over the last decade have minimised pre-existing vulnerabilities, providing that surprising degree of resilience. It is right to conclude that the African Development Fund (ADF) has contributed to that resilience. By frontloading supportive action, the Fund and its partners provided additional capacity to resist the external shocks. We are proud of the role which ADF played at this critical time while avoiding strategic drift. Now, as the global economy begins to show fragile signs of recovery, preventing slippages and consolidating the gains in Africa is a call which we must respond. Our aim must be to see countries progress significantly in prosperity creation and graduate, as Cape Verde has done, to less dependence on aid. And that means acting on sources of growth, and growth drivers such as our core areas of operations.

The ADB has put forward what I believe to be a credible proposal as to how it intends to do so: Our projected pipeline for ADF-12 already has 336 national and multinational projects valued at UA12.35 billion (\$18 billion). This demand is fuelled mainly by the infrastructure gaps, particularly energy, the needs for regional integration, investment in climate change adaptation. All priorities of ADF-11 and ADF-12. Secondly, much has been said about our institution's capacity - on which there is much to do always.

Nonetheless, representatives of RMCs present here will confirm, the AfDB is becoming a lender and partner of choice both in normal and crisis times. Our selectivity and focus has enabled us to deepen our understanding of the sectors and countries we operate in and we are more and more able to demonstrate results with each dollar. Regional integration provides the underpinning for private sector development and economic diversification. This is an area that has the full backing of African nations.

On Sunday, the Ministers and Governors at the Committee of Ten Ministers of Finance and Governors Meeting unanimously agreed that regional economic integration is central to Africa's sustained growth. Indeed, we heard from BEAC that in regions such as French speaking West Africa, unity was a source of resilience. Since the turn of this decade, we have invested close to \$9 billion, making the Bank the largest financier in the domain in Africa.

Regional operations are more complex and imply higher transaction costs in preparation, coordination, and close monitoring. Regional integration is fundamental in ensuring Africa's convergence with the rest of the world, and in facilitating growth on the continent. We must learn how to do better as we do more - in partnership with others - but this is the Bank on whose shoulders lies this historic responsibility. ADB needs to be relevant to all its Regional Member Countries (RMCs), and that includes fragile states. These are states in need of our expertise and support. We must continue to uphold the vision and boldness the Deputies had when they founded this initiative. We must use all available instruments to respond to the needs of these states, including public support six instruments; of course, tailoring the response to the circumstances.

The risk of operating in these states is high, but even higher is the return or the cost of failure. We must therefore always and at all times continue to seek ways to mitigate the risks associated in operating in these fragile environments. Under ADF-12, the Bank will continue to support these countries in rebuilding fractured institutions, infrastructure rehabilitation, capacity, and arrears clearance.

Tailoring our interventions to each country's circumstances and taking into account the lessons we have learned during ADF-11. We are currently strengthening our results measurement tools, quality-at-entry-operations, portfolio management framework, and country level engagement. Budget support operations are an important instrument in our tool box. Our ability to meaningfully be part of the harmonisation process, the Paris Agenda and the Accra Action plan is very much a function of what we do in this sphere. Management will work on fortifying the areas that we have identified as needing improvements which include the fiduciary risk management framework. Africa faces a huge energy gap. There are obvious consequences not just for economic growth, for the private sector, but also for health and education.

**Required:**

- a) Discuss the advantages of regional economic integration among African countries. (12 Marks)
- b) Examine FIVE factors necessary for the success of African regional integration (5 Marks)
- c) Discuss the disadvantages of foreign aid (5 Marks)
- d) Evaluate three objectives of African Development Bank (3 Marks)

**QUESTION TWO**

- a) Discuss any three likely effects of an expansionary monetary policy in an economy. (6 marks)
- b) The table below represents economic transactions for country XYZ in billions of shillings:

	Total output	Intermediate purchases
Agriculture	30	10
Manufacturing	70	45
Services	55	25

**Required:**

- i) Calculate the Gross National Product of this economy using the value-added approach. (2 Marks)

- ii) If depreciation and indirect taxes equal 8 billion and 7 billion shillings respectively, find the Net Domestic Product both at Market prices and at factor cost. **(3 Marks)**
- c) Define the following terms and show their relationship. **(4 Marks)**
- i. Real GDP
  - ii. Nominal GDP
  - iii. GDP Deflator

### QUESTION THREE

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

$$C = 200 + 0.25YD$$

$$I = 150 + 0.25Y - 1000i$$

$$G = 250$$

$$T = 200$$

$$(M / P) d = 2Y - 8000i$$

$$M/p = 1600$$

- a. Use the above information to derive the IS and LM relations. **(5 Marks)**
- b. Use the IS and LM relations from (a) to solve for the equilibrium levels of output (Y) and interest rate (i). **(4 Marks)**
- c. Use the answers from (b) to find values for C (Consumption) and I (Investment) in this equilibrium. **(2 Marks)**
- d. If  $M/p$  is increased to 1840, evaluate and explain the effect of the increase on the equilibrium values for Output, Interest Rate, Consumption and Investment in the model. **(4 Marks)**

**QUESTION FOUR**

- a) Explain five reasons behind the development of international trade.  
(10 Marks)
- b) Suppose, the proportion of change in income in the last year and the current year equals 0.6 and the last year's income ( $Y_{t-1}$ ) is Kes. 80,000 and the current year's income ( $Y_t$ ) is kes. 85,000. Compute income on the basis of permanent income hypothesis.  
(2 Marks)
- c) Explain four causes of demand pull inflation  
(3 Marks)

**QUESTION FIVE**

- a) Assume that the desired consumption, desired investment, and government spending in a closed economy are

$$C = 360 - 200r + 0.1Y$$

$$I = 120 - 400r$$

$$G = 120$$

**Required**

- i) Find an equation for desired national saving, sin terms of output  $Y$  and the real interest rate  $r$ .  
(3 Marks)
- ii) Determine the value of the real interest rate that clears the goods market;  
When  $Y = 550$ ? (2 Marks)  
When  $Y = 600$ ? (2 Marks)  
When  $Y = 650$ ? (2 Marks)
- iii) Use the goods market equilibrium condition to derive the IS curve.  
(4 Marks)
- b) Data from a given economy shows that there are 150 million people in the labor force and 250 million people of working age, 90 million people out of

the labor force and 8 million people who have jobs. Compute the unemployment rate (2 Marks)

**QUESTION SIX**

- a) If money supply in a given economy equals 500 while the velocity and price equal 8 and 2 respectively, determine the level of real and nominal output. (4 Marks)
- b) Discuss three effects of increased technological change on employment (6 Marks)
- c) Evaluate any five methods of dealing with balance of payments problems (5 Marks)

