

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS
THARAKA CAMPUS**

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF

ECON 222: INTERMEDIATE MACROECONOMICS

STREAMS:

TIME: 2 HOURS

DAY/DATE: THURSDAY 13/12/2018

11.30 A.M – 1.30 P.M

INSSTRUCTIONS:

- Answer question one and any other two questions

1. (a) Given the following:

$$C = 100 + 0.2Y^d$$

$$I = 30 + 0.4 Y$$

$$T = 20 + 0.2Y$$

$$G = 400$$

$$X = 200$$

$$M = 150 + 0.3 Y$$

Determine ;

(i) Equilibrium national income Y^e [4 marks]

(ii) Equilibrium investment [2 marks]

(iii) M^e [2 marks]

(iv) T^e [2 marks]

(b) According to Keynesian economics, there are three distinct motives for holding money. Using a well labelled diagram, discuss the motives. [10 marks]

(c) Discuss the major goals of macroeconomics. [6 marks]

(d) Discuss the essentials of a good tax system. [4 marks]

2. (a) Using well labelled diagram where necessary, discuss the following.

- (i) Absolute income hypothesis [3 marks]
- (ii) Relative income hypothesis [3 marks]
- (iii) Permanent income hypothesis [3 marks]
- (v) Life cycle income hypothesis [3 marks]
- (b) Using a well labelled diagram for illustration, discuss the concept of long –run phillips curve. [8 marks]
3. (a) The following equation describe a certain economy.
- $$C = 400 + 0.75 Y^d$$
- $$I = 200 - 100r$$
- $$T = 70 + 0.2 Y$$
- $$G = 100$$
- $$X = 10$$
- $$M = 150 + 0.06 Y$$
- $$M_s = 400$$
- $$M_d = 0.2Y - 10r$$
- Determine ;
- (i) Is and LM equations [4 marks]
- (ii) Calculate the equilibrium income and interest rate. [4 marks]
- (iii) Find C^e, I^e, T^e, M^e and Md^e [8 marks]
- (b) Discuss the tobins of theory of investment. [4 marks]
4. (a) Discuss the assumptions of accelerator theory of investment. [7 marks]
- (b) With diagrammatic illustration, discuss the concept of paradox of thrift. [8 marks]
- (c) Discuss the real theory of interest rate as a major component of classical macroeconomics. [5 marks]
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