

CHUKA



UNIVERSITY

RESIT/ SPECIAL EXAMINATIONS

**EXAMINATION FOR THE AWARD OF
BACHELOR OF COMMERCE**

ECON 222/BBAM 202: INTERMEDIATE MACROECONOMICS

STREAMS: BCOM

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 12/09/2018

11.30 AM – 1.30 PM

INSTRUCTIONS:

Answer Question One and any other Two Questions

Question One

- (a) Briefly discuss the following concepts as used in macroeconomics
- (i) The crowding out effect [4 marks]
 - (ii) Accelerator theory of investment [4 marks]
 - (iii) Hyperinflation [4 marks]
- (b) Explain the effects of high and rising inflationary rate on the rate of interest. [10 marks]
- (c) Suppose structural model for the product market is given as follows:
 $C=100+0.8(Y-T)$
 $S=-100+0.2(Y-T)$
 $I=200-1080r$
 $G=100$
 $T=50+0.2Y$
- Find:
- (i) Equilibrium equation ($G+I=S+T$) for the product market [3 marks]
 - (ii) Define the IS and LM equations [2 marks]
 - (iii) Function for the IS curve [3 marks]

Question Two

- (a) Explain the meaning of a multiplier [1 mark]

(b) given the following equations where;

$$C=80+0.18Y^d$$

$$I=50+0.2Y$$

$$T=20+0.1Y$$

$$G=300$$

$$X=300$$

$$M=200+0.24Y$$

- (i) Explain how the government, investment and tax multipliers. [9 marks]
- (c) Explain how the government crowds out the private investments in an economy. [10 marks]

Question Three

- (a) Explain five causes of unemployment in Kenya. [10 marks]
- (b) Explain the ways government can use to reduce unemployment in Kenya. [10 marks]

Question Four

- (a) Identify and explain five factors that determine the supply of money in Kenya. [10 marks]
- (b) Using a well labeled diagram, explain how the life cycle hypothesis works. [10 marks]
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