

CHUKA



UNIVERSITY

UNIVERSITY SUPPLEMENTARY/SPECIAL EXAMINATIONS.

SECOND YEAR EXAMINATION FOR THE AWARD OF BACHELOR OF SCIENCE  
IN ECONOMICS AND SOCIOLOGY

ECON 222: INTERMEDIATE MACROECONOMICS

STREAMS:

TIME: 2 HOURS

DAY/DATE: THURSDAY 26/07/2018

8.30 A.M - 10.30 A.M

INSTRUCTIONS:

- Answer Question ONE and any other TWO Questions.

**QUESTION ONE [30 MARKS]**

The commodity Market and Money Market of a given economy are presented as below:

$$Y = C + I$$

$$C = 1400 + 0.8Y$$

$$I = 1,000 - 30r$$

$$\dot{i} = 0.2Y$$

$$L_s = 100 - 20r$$

$$M_s = 1,500$$

- (a) Derive the I-S curve. [4 Marks]
- (b) Derive the L-M curve. [4 Marks]
- (c) Determine the equilibrium level of income and interest rate. [6 Marks]
- (d) If the money supply is increased by 50, what would be the effect on the equilibrium level of income and interest rate. [4 Marks]
- (e) Using a diagram, explain the relationship between output (GDP) and Un-employment. [6 Marks]
- (f) With relevant examples, distinguish between fiscal policies & monetary policies. [6 Marks]

**QUESTION TWO [20 MARKS]**

(a) Assume the following information represents an Hypothetical economy.

$$Y = C + I + G + (X - M)$$

$$C = a + bY_d$$

$$T = d + ty$$

$$X = X_o$$

$$M = M_o + mY$$

$$G = G_o$$

**Where**

$$A > 0, 0 < b < 1$$

$$d > 0, 0 < t < 1$$

$$0 < m < 1$$

- (i) Explain the economic interpretations of parameters a, b, d, t and m. [7 Marks]
- (ii) Find the equilibrium values of income, consumption taxes and imports. [7 Marks]
- (b) Explain the following terms as used in economic
  - (i) Economic model [2 Marks]
  - (ii) Crowding out effect [2 Marks]
  - (iii) Aggregate demand [2 Marks]

**QUESTION THREE [20 MARKS]**

- (a) Discuss the major macroeconomic policy issues in any economy. [10 Marks]
- (b) Explain the policies for curing inflation in Kenya. [10 Marks]

**QUESTION FOUR [20 MARKS]**

- (a) Explain the factors that lead to:
  - (i) Shifts in the I-S curve [4 Marks]
  - (ii) Shift in the LM curve [4 Marks]
- (b) Distinguish between:
  - (i) Adaptive expectation and rational expectations. [4 Marks]
  - (ii) Actual output and full employment output. [4 Marks]
  - (iii) Inflationary gap and deflationary gap. [4 Marks]

**QUESTION FIVE [20 MARKS]**

- (a) Explain the factors that determine the level of investment in a county. [6 Marks]
- (b) Discuss the theories of investment. [6 Marks]
- (c) If you were the chief economic of a given economy, what measures would you take to improve the level of investment in that economy? [8 Marks]

