

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF SCIENCE IN
ECON STAT, AGRIBUSINESS, AGRICULTURAL ECONOMICS, ECON SOCI, B.A
GENERAL AND BACHELOR OF COMMERCE**

ECON 222: INTERMEDIATE MACROECONOMICS

STREAMS:

TIME: 2 HOURS

DAY/DATE: TUESDAY 17/04/2018

11.30 A.M – 1.30 P.M

INSTRUCTION:

- **Answer question one and any other two questions**

1. (a) Briefly explain the following economic concepts;

(i) Marginal propensity to save [2marks]

(ii) Expansionary fiscal policy [2marks]

(iii) Liquidity preference [2marks]

(iv) Rational expectations [2marks]

(v) Economic recession [2marks]

(b) Suppose the level of autonomous investment in an economy is \$ 2000 and the consumption function is $C = 800 + 0.75Y$.

(i) Find the equilibrium level of income . [2marks]

(ii) What will be the increase in national income if investment increases by \$ 250? [2marks]

(iii) Suppose the level of planned investment in an economy is \$ 2000 and the savings function is given by $S = -800 + 0.25Y$, find equilibrium level of income. [4marks]

- (c) According to radicalist, monetary and fiscal policies do not affect employment and output. Use diagram(s) to illustrate this argument. [8marks]
- (d) State 4 pillars of classical macro economics. [4marks]
2. (a) Clearly discuss the permanent income hypothesis theory of consumption. [6marks]
- (b) Suppose $C = \alpha + \beta Y^d$, $I = i_0$, $G = G_0$, $T = t_0$ derive the equilibrium national income and hence get balanced budget multiplier. [6marks]
- (c) Discuss the principles of a good tax system. [8marks]
3. (a) With help of a diagram(s) explain the causes of real disturbance in classical model. [14marks]
- (b) Explain the motives for holding money according to Keynes. [6marks]
4. (a) The goods market and money market of a hypothetical economy is given below
- $$C = 100 + 0.6Y$$
- $$I = 200 - 20r$$
- $$M_d = 0.2Y - 10r$$
- $$M_s = 1500$$
- (i) Derive the equation for IS curve. [2marks]
- (ii) Derive the equation for LM curve. [2marks]
- (iii) Determine the equilibrium level of income and interest rate. [4marks]
- (b) Explain the reason for an inverse relationship between inflation rate and unemployment rate in the short run period. [4marks]
- (c) State the assumption of the accelerator theory of investment. [8marks]
-