CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

ECON 222: INTERMEDIATE MACROECONOMICS

STREAMS: BCOM (ODEL) TIME: 2 HOURS

DAY/DATE: WEDNESDAY 07/08/2024 2.30 P.M. – 4.30 P.M.

INSTRUCTIONS

- **Answer question ONE and any other TWO questions**
- **Do not WRITE anything on this paper.**

QUESTION ONE

a) Distinguish between the following terms used in macroeconomics

i. Capital expenditure and recurrent expenditure (2 marks)

ii. Productive debt and reproductive debt (2 marks)

iii. Progressive tax and regressive tax (2 marks)

iv. Balance of trade and balance of payment (2 marks)

v. Injections and leakages of circular flow of income (2 marks)

b) Macroeconomics is an important branch of economics that deals with aggregation of economic units. Explain the 4 importance and the 4 limitations of macroeconomics. (8 marks)

c) The following information describes a certain economy

$C = 400+0.75Y^d$

$I = 200-100r$

$T = 70 + 0.2Y$

$G = 100$

X = 10

M = 150 + 0.06Y

Money supply = 4000

Money demand = 0.2Y-10r

Required;

i. Distinguish between IS and LM curves. (4 marks)

ii. Compute the IS and LM equations from the above information. (4 marks)

iii. Calculate the consumption and investment equilibria. (4 marks)

QUESTION TWO

a) Explain any three monetary policy instruments use to control money supply in an economy. (9 marks)

b) Taxation policy is a revenue generating instrument for many economies. Explain how taxation help in achieving optimum allocation of resources. (11 marks)

QUESTION THREE

a) Explain the material relationship between the Philips curve and aggregate demand. (8 marks)

b) Discuss the circular flow of income in a two-sector economy. (6 marks)

c) Enumerate the three major functions of public sector in the economy. (6 marks)

QUESTION FOUR

a) According to Keynes an individual aggregate demand for money is based on a decision that takes three motives. Discuss the three distinctive motives for holding money according to Keynes. (6 marks)

b) Using a well labelled diagram, discuss the equilibrium in the classical labour market. (6 marks)

c) Distinguish between the absolute income and the relative income hypotheses of consumption. (8 marks)

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