KIMATHI UNIVERSITY COLLEGE OF TECHNOLOGY
UNIVERSITY EXAMINATION 2012/2013

SECOND YEAR SUPPLEMENTARY/ SPECIAL EXAMINATION FOR THE DEGREE
OF BACHELOR OF COMMERCE

HBC 2242: INTERMEDIATE MACRO ECONOMICS

DATE: 30TH OCTOBER 2012   TIME: 2.00PM – 4.00PM

Instructions:
Answer question ONE and any other TWO questions

QUESTION ONE
a) Discuss permanent income hypothesis   **(6 Marks)**
b) Derive and explain the IS curve graphically   **(10Marks)**
c) List down the effects of inflation in an economy   **(6 Marks)**
d) What causes shifts in IS curve   **(8 Marks)**

QUESTION TWO
a) Define the J. curve phenomenon   **(6 Marks)**
b) Illustrate shifts in BP curve   **(7 Marks)**
e) Illustrate how fiscal policy tools can be used to solve macroeconomics problems **(7 Marks)**

QUESTION THREE
a) Explain what you understand by the following concepts (Use diagrams where possible)
     i.   Floating exchange rate   **(4 Marks)**
     ii.   Equilibrium in goods market   **(4 Marks)**
     iii.   The Keynesian demand for money   **(4 Marks)**
b) How is a BOP deficit solved under fixed rate regime   **(8 Marks**

QUESTION FOUR
a) i. Discuss briefly the basic views of monetarist economist   **(6 Marks)**
    ii.What are the consequences of rate of interest rigidity   **(6 Marks)**
b) In place of real theory of interest, Keynes developed monetary theory of interest explain its
    foundations   **(8 Marks)**

QUESTION FIVE
c) Demonstrate a simultaneous equilibrium in the monetary and goods markets sectors
                                                    (10 Marks)
d) Give possible remedies of unemployment when price and wages are fixed using classical
    model   **(4 Marks)**
e) Suppose that everyone in the economy at every interest rate decide to save more. Would this
    lead to increase in employment   **(6 Marks)**