CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE IN BACHELOR OF ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT

BBAM 202: INTERMEDIATE MACROECONOMICS

STREAM: BBAM (Y2S2)   **TIME: 2 HOURS**

DAY/DATE: FRIDAY 9/8/2013   **11.30 A.M. – 1.30 P.M.**

INSTRUCTIONS

ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS

1.   (a)   Consider the following Keynesian model of income determination in an open economy.

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

$C = 100 + 0.8Y^d$

$I = 200$

$I = 100 + 0.25Y$

$G = 100$

$G_T = 50$

$X = 20$

$M = 10 + 0.1Y$

(i)   Find the equilibrium GDP (Y)   [5 marks]

(ii)   Find the equilibrium consumption (C) tax (T) and imports (M)   [3 marks]

(iii)   Specify both the endogenous and the exogenous variables in the model.

[2 marks]

(b)   Explain clearly the objective of the macroeconomics discipline.   [8 marks]

(c)   Briefly explain the Phillips curve hypothesis.   [8 marks]

(d)   What is an inflationary gap?   [4 marks]

2.   (a)   Describe the Random-Walk theory of consumption under uncertainty. [10 marks]

(b)   Explain the basis of Tobin's q theory of investment and show how it's different from other theories of investment decisions.   [10 marks]

3.   (a)   In the past years, Kenya has seen the inflation rate move from single digit to double digit levels. What policy actions should be taken to stabilize prices?

[10 marks]

(b)   Discuss
(i) The transactions demand for money (TDFM)
(ii) The speculations demand for money (SDFM)   [10 marks]

4.   (a)   Discuss the advantages and disadvantages of the flexible exchange rate system.

[10 marks]

(b)   Explain the causes and kinds of balance of payment disequilibrium.   [5 marks]

(c)   Describe the monetarist approach to the portfolio adjustment in transmission mechanism of charge in money supply.   [5 marks]