

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR
OF**

BCOM 202: INTERMEDIATE MACROECONOMICS

STREAMS:

TIME: 2 HOURS

DAY/DATE: MONDAY 1/8/2016

8.30 A.M. – 10.30 A.M.

INSTRUCTIONS:

- **Answer question one and any other two questions**
- **Do not write on the question paper**

1. (a) Distinguish between the following concepts of economic.

(i) IS and LM curve. (2marks)

(ii) Devaluation and depreciation of currency. (2marks)

(iii) Inflation and unemployment. (2marks)

(b) State whether the following statements are true, false or uncertain . Explain your answer

(i) Marginal propensity to consume is the change in national income resulting from a unit change in consumption. (3marks)

(ii) According to Keynesian people would invest even when interest rate are too low because it is better to earn something small than none at all. (3marks)

BCOM 202

(c) The commodity and money markets for an hypothetical economy are given as follows;

Commodity market

$C = 100 + 0.6y^d$	Consumption function
$I = 1800 - 2.5 r$	Investment function
$G = 200$	Government expenditure
$X = 150$	Export
$M = 80 + 0.1y$	Import
$T = 70 + 0.2y$	Tax function

Money market

$L_t = 0.2y$	Transaction demand for money
$L_{sp} = 100 - 2r$	Speculative demand for money
$M_s = 750$	Money supply

Required ;

- (i) Derive IS equation and LM equation. (6marks)
 - (ii) Calculate the equilibrium income ,interest rate and consumption. (6marks)
 - (iii) Show whether this country is experiencing trade balance ,deficit or surplus. (3marks)
 - (iv) Does this country have budget deficit ,surplus or balanced budget? Show your workings. (3marks)
2. (a) Using a well labeled diagram analyze the impact of influx of refugees in the country using the classical model . This should be followed by a detailed explanation. (10marks)
 - (b) Explain clearly the essentials of a good tax system. (10marks)
3. (a) Explain clearly the crowding out effect. (10marks)
 - (b) Discuss clearly the main contributions of rational expectation theory. (10marks)

BCOM 202

4. (a) Explain the main goals of macroeconomic policy. (10marks)
- (b) Explain the following theories of consumption;
- (i) Absolute income hypothesis. (5marks)
- (ii) Permanent income hypothesis. (5marks)
-