



MERU UNIVERSITY COLLEGE OF SCIENCE & TECHNOLOGY

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University Examinations 2011/2012

SECOND YEAR, SECOND SEMESTER EXAMINATIONS FOR THE DEGREE OF
BACHELOR OF COMMERCE

HBC 2242: INTERMEDIATE MACRO - ECONOMICS THEORY

DATE: APRIL 2012

TIME: 2 HOURS

INSTRUCTIONS: Answer questions *one* and any other *two* questions

QUESTION ONE (30 MARKS)

- a. Explain the term potential output (5 Marks)
- b. Would it be possible for the actual output of an economy to be above potential output? Explain (3 Marks)
- c. Differentiate between nominal GNP and real GNP (8 Marks)
- d. Explain the following terms as used with reference to inflation.
 - i. Base year (4 Marks)
 - ii. Consumer price index (4 Marks)
- e. Suppose we have the following data on prices.

<u>Year</u>	<u>GNP price reflector (1982-100)</u>
1985	110.9
1986	113.9
1987	117.7
1988	121.3

Required:

Calculate the rate of inflation for 1986, 1987 and 1988. (6 Marks)

QUESTION TWO (20 MARKS)

- a. Discuss the real business cycle models (6 Marks)

- b. Explain how the real business cycle models differ from the equilibrium business cycle models (8 Marks)
- c. Outline the main criticisms that have been advanced against the real business cycle models (6 Marks)

QUESTION THREE (20 MARKS)

- a. Explain the term, planned investment. (4 Marks)
- b. Discuss the determinants of level of investment demand in an economy (6 Marks)
- c. The relations below are for a closed economy without government
 $C = 600 + 0.7Y$
 $I = 250 + 0.1y - 10r$
 - i. Determine the is- schedule (3 Marks)
 - ii. Determine the level of income along the is schedule corresponding to interest rates of 5, 3 and 7 percent (3 Marks)
 - iii. determine the change in autonomous investment that will have the same effect on equivalent income as a fall in interest from 7 to 5 percent (4 Marks)

QUESTION FOUR (20 MARKS)

- a. explain monetarists view of money (6 marks)
- b. outline the monetarists criticism of the income expenditure model (6 Marks)
- c. discuss the problem of persistence of recession from national expectations perspective (8 Marks)

QUESTION FIVE (20 MARKS)

Consider an hypothetical economy characterized by the following.

$$C = 25 + 0.8 Y^d$$

$$I = 20$$

$$G = 26$$

$$X = 17$$

$$M = 2 + 0.1 Y$$

$$T = 25 + 0.25 Y$$

- a. compute the equilibrium level of income, consumption and imports (6 Marks)
- b. Solve the government expenditure multiplier and interpret your answer (6 Marks)
- c. Solve for the import multiplier and interpret your results (6 Marks)
- d. Explain the unit multiplier theorem (2 Marks)

