

**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

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**University Examinations 2014/2015**

THIRD YEAR, FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF PURCHASING AND SUPPLIES MANAGEMENT AND SECOND YEAR, SECOND SEMESTER EXAMINATION FOR DEGREE OF BACHELOR OF COMMERCE

**HPS2242/BEC 3250: INTERMEDIATE MACROECONOMICS**

**DATE: APRIL 2015 TIME:** $2 $**HOURS**

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

**QUESTION ONE**

1. Distinguish between the following economic concepts;
2. Economic theory and economic model. (3 Marks)
3. Bank rate and interest rate. (3 Marks)
4. Autonomous consumption and induced consumption (4 Marks)
5. Economic contraction and economic expansion (4 Marks)
6. Given the following macroeconomic model;

Consumption function C = 100 + 0.75YD

Investment function I = 250 – 4r

Government spending G = 150

Tax function T = 40 + 0.2Y

Transfer payment R = 40

Transactionary demand for money $M^{T}$ = 0.2Y

Precautionary demand for money $M^{P}$= 0.05Y

Speculative demand for money $M^{sp}$= 20 r

Money supply $M^{s}$ = 500

1. Derive the IS curve equation. (4 Marks)
2. Derive the LM curve equation. (4 Marks)
3. Compute the equilibrium income and interest rate. (8 Marks)

**QUESTION TWO (20 MARKS)**

1. Discuss the objectives of macroeconomics in the economic progress of a country.(10 Marks)
2. Explain the role of investments in the Kenyan economy. (10 Marks)

**QUESTION THREE (20 MARKS)**

Discuss the various stages involved in the evolution of economics as an empirical science of study. (20 Marks)

**QUESTION FOUR (20 MARKS)**

1. Consider the following economy;

C = 1000 + 0.3 YD

I = 800 + 0.2 Y

M = 50 + 0.1 Y

G = 700

T = 200 + 0.3 Y

X = 200

1. Determine the G.D.P. (4 Marks)
2. Determine the investment multiplier. (2 Marks)
3. Determine the national savings. (4 Marks)
4. Determine the balance of trade. (4 Marks)
5. Suppose the savings and investment functions in an economy are given as;

 I = 200 – 10 r

 S = -200 + 0.2 Y

 Derive the IS equation and interpret your answer. (6 Marks)

**QUESTION FIVE (20 MARKS)**

1. Graphically show and explain the derivation of IS and LM relations. (10 Marks)
2. Distinguish between the solow growth model and the Harrod –Domar model of growth.

(10 Marks)