



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS SEPTEMBER – DECEMBER 2021 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: ECON201

COURSE TITLE: INTERMEDIATE MACROECONOMICS

DATE:

TIME:

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: *All exam rooms are under CCTV surveillance during the examination period.*

SECTION A: COMPULSORY

Question One

a) Discuss the effects of removing interest rate capping in an economy [12Marks]

b) XYZ economy has the following hypothetical information

$$C=5000+0.05Y^d$$

$$I=4000-0.002r$$

$$T=100+0.02Y$$

$$M=300+0.04Y$$

$$X=1000$$

$$M_S= 5000$$

$$M_T= 0.02Y$$

$$M_{SP}=2000-0.05r$$

Required:

- i) Derive the IS function and the LM function [6 Marks]
- ii) Determine the Equilibrium Income and the Equilibrium interest rates [4 marks]
- iii) Calculate the Equilibrium Consumption [2 Marks]
- iv) Determine the Equilibrium Imports [2 marks]
- v) Determine the Equilibrium investment and the multiplier effect [4 marks]

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

a) One of the ways of funding government expenditure is through imposing taxation to its citizens. Discuss the economic effects of taxation [10 marks]

b) Less creditworthy countries sometimes borrow directly from commercial banks or international institutions such as the International Monetary Fund or the World Bank. Discuss the macro- economic policy objectives that the government uses in Kenya

a) [10 marks]

Question three

a) Explain the causes of cost push inflation [8 marks]

b) Discuss the disadvantages of purchasing power parity theory [12 marks]

Question Four

- a) Make notes on the following with examples
 - i) Solow's growth model [4 marks]
 - ii) Peak Theory [4 marks]
 - iii) Demonetization policy [4 marks]
 - iv) Kuznet's Theory on consumption [4 marks]
 - v) Pigou effect [4 marks]

Question Five

- a) Discuss the assumptions of Jorgenson's neoclassical theory of investment [12 marks]
- b) Explain the four factors that affect the aggregate consumption [8 marks]