



# **GRETSA UNIVERSITY - THIKA**

## **UNIVERSITY EXAMINATIONS MAY - AUGUST 2023 SEMESTER**

### **BACHELOR OF COMMERCE**

**COURSE CODE: ECON201**

**COURSE TITLE: INTERMEDIATE MACROECONOMICS**

**DATE:**

**TIME:**

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#### **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 factors that determine investment expenditure **[12 marks]**

b) Given the following information:

Money market Money demand:

$$(M/P)^d = L(Y, r) = 50 + 0.8Y - r$$

Money supply:  $MS/P = 80$

Goods market Households:  $C = 320 + 0.8Y^D$

Firms:  $I = 40 - 40r$

Government:  $G = 80$

Taxes:  $T = 50$

Where  $L(Y,r)$  represents the demand for real money balances in this economy,  $MS/P$  represents the real money supply set by the central bank.

i) Derive the equation for LM curve. **[4 marks]**

ii) Derive the equation for IS curve. **[4 marks]**

iii) Compute the equilibrium values of  $Y$  (income) and  $r$  (interest rate) in this economy. **[6 marks]**

c) Discuss the application of accelerator effect in Economics **[6 marks]**

d) Discuss the causes of demand- pull inflation in developing economies **[8 marks]**

## SECTION B: ANSWER ANY THREE QUESTIONS

### Question Two

a) Discuss causes and solutions to balance of payment disequilibrium. **[14 marks]**

b) Explain three positive effects of inflation in an economy **[6marks]**

c)

### Question three

a) Discuss the six factors that make the aggregate demand curve to be downward sloping.

**[12 marks]**

- b) Using Keynesian cross derive IS curve. In your own view what are factors that shift the IS curve? **[8 marks]**

**Question Four**

- a) Explain the four basic principles of consumption expenditure as outlined in Keynes's absolute income hypothesis. **[12 marks]**
- b) Explain four policy instruments for monetary policy **[8 marks]**

**c) Question Five**

- a) Discuss the factors that affect the Speculative demand for money **[12 marks]**
- b) Discuss four fiscal policy measures that can be used to correct deflationary gap in any economy **[8 marks]**