The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER-2016

EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE BUSINESS / BACHELOR OF COMMERCE
(BCOB YR II SEM II / BCOM YR II SEM II)

UNIT CODE: HBC 2213/HCOB 2211

UNIT TITLE: INTERMEDIATE MACROECONOMICS

DATE: 13TH DECEMBER, 2016 **TIME: 9:00 AM – 11:00 AM**

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

Question One

a) Distinguish between the following sets of concepts as used in macroeconomic theory;
- i) Microeconomics and macroeconomics (2 marks)
- ii) Real interest rate and nominal interest rate (2 marks)
- iii) Real GDP and nominal GDP (2 marks)
- iv) Monetary policy and fiscal policy (2 marks)

b) Explain four types of macroeconomic models clearly highlighting their application in macroeconomic theory (8 marks)

c) You are given the following information about the money and commodity markets in a closed economy.

Money market

M_{DT} = ½ Y (precautionary & transactions demand)
M_{DS} = 1500 – 12r (speculative demand)
M_S = 4,200 (money supply)

Commodity market
C = 20 + ½ Y
I_0 = 400 – 10r
G_0 = 4, 000

Required.
Determine the levels of income and interest rate that clear the market (9 marks)

d) Given the national income model,

$$Y = C + I_0 + G_0 + X_0 - M$$

Provide an explanation for each 'component of this model (5 marks)

QUESTION TWO

a) Using well – labelled diagrams, graph and explain the nature of the following:
- i) Consumption function, $C = \alpha_0 + \beta Y$ (3 marks)
- ii) Tax function, $T = d + tY$ (3marks)

b) The following equations describe a certain economy;

$C = 100 + 0.8Y^d$

$I_0 = 500$

$G_0 = 300$

$T = 30 + 0.3Y$

$X_0 = 200$

$M = 20 + 0.2Y$

Required

i) Find the equilibrium values of income (Y), consumption (C), imports (M) and taxes (T) (8 marks)

ii) Calculate;

a) The investment multiplier (2 marks)

b) Government expenditure multiplier (2 marks)

c) Export multiplier (2 marks)

QUESTION THREE

a) Discuss Keynes' concept of liquidity preference as applies to demand for money (10 marks)

b) Explain the fiscal and monetary measures that the government can implement to overcome the following:

i) Inflation (5 marks)

ii) Depression (5 marks)

QUESTION FOUR

a) Graphically illustrate the short-run trade-off ;between inflation and unemployment (6 marks)

b) Discuss the reasons why the short run Philips curve collapsed in the 1970s (6 marks)

c) With reference to theories of consumption, explain;

i) Relative income hypothesis (4 marks)

ii) Permanent income hypothesis (4 marks)

QUESTION FIVE

a) Describe the concept of economic instability clearly bringing out its major causes (10 marks)

b) Highlight the major policy instruments of fighting economic instability and how they can be used to overcome such instability (10 marks)