

The Cooperative University of Kenya



HBC 2213/HCOB 2211: Intermediate Macroeconomics

Instructions

Answer question One 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

$$M_{DT} = \frac{1}{2} Y \text{ (precautionary \& transactions demand)}$$

$$M_{DS} = 1500 - 12r \text{ (speculative demand)}$$

$$M_S = 4,200 \text{ (money supply)}$$

Commodity market

$$C = 20 + \frac{1}{2} Y$$

$$I_0 = 400 - 10r$$

$$G_0 = 4,000$$

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)



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