The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER-2018

EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE BUSINESS
UNIT CODE: HCBD 2211
UNIT TITLE: INTERMEDIATE MACRO-ECONOMICS

DATE: DECEMBER, 2018   **TIME:**

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

QUESTION ONE
(a) Explain the term economic model   (2 marks)
    i)   Highlight FOUR uses of an economic model   (4 marks)
(b) The following equation describe the Keynesian model of income determination

$$Y = C+1_0+G_0(X_0-M)$$

When $C = 200 + 0.8Y^D$

          $1_0 = 100$

          $G_0 = 400$

          $T = 2-+0.5Y$

          $X_0 = 600$

          $M = 50 + 0.2Y$

Required:
  i.   Determine the equilibrium values of income (Y) consumption (C) taxes (T) and import (M)   (10 marks)
  ii.   Using a well labeled diagram, discuss the consumption and import functions
                              (6 marks)
  iii.   Does this economy have a budget surplus or a budget deficit? Explain (4 marks)
  iv.   Does this economy have a trade deficit or a trade surplus? Explain   (4 marks)

QUESTION TWO
(a) Clearly distinguish between static and dynamic models   (8 marks)
(b) Using a well labeled diagram, discuss the IS curve   (6 marks)
(c) Explain the reason for the slope of both IS and LM curves   (6 marks)

QUESTION THREE
(a) Explain what is meant by rational expectations   (3 marks)
(b) Keynesian theory of money demands that there are THREE motives for holding money. Discuss   (9 marks)
(c) Distinguish between monetary policy and fiscal policy clearly bringing out how they may be used as demand management policies   (8 marks)

QUESTION FOUR
(a) Using the Philips curves, discuss the relationship between unemployment and inflation   (6 marks)

(b) In view of the adverse effects of inflation in economy, explain the monetary measures that can be adopted to reduce high inflation level in Kenya (10 marks)

(c) Explain what is meant by natural rate of unemployment (4 marks)

QUESTION FIVE

(a) Write brief notes on the following economies concepts
    i. Classical macroeconomic view (5 marks)
    ii. Keynesian macroeconomic view (5 marks)
    iii. Monetarist macroeconomic views (5 marks)
    iv. Relative income hypothesis (5 marks)