

**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

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**University Examinations 2015/2016**

SECOND YEAR, SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELORS OF COMMERCE.

AND

THIRD YEAR, FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELORS OF PURCHASING AND SUPPLIES MANAGEMENT.

**BEC 3250: INTERMEDIATE MACRO- ECONOMIC THEORY.**

**DATE: AUGUST 2016 TIME: 2 HOURS**

**INSTRUCTIONS: -** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. Briefly explain the following economic concepts
2. Marginal propensity to save (2 marks)
3. Expansionary fiscal policy (2 marks)
4. Contractionary monetary policy (2 marks)
5. Liquidity preference (2 marks)
6. Rational expectations (2 marks)
7. Economic recession (2 marks)
8. Suppose the level of autonomous investment in an economy is $2000 and the consumption function is C=800+0.7Y. Find the equilibrium level of income. (2 marks)
9. What will be the increase in national income if investment increases by $250? (2 marks)
10. Suppose the level of planned investment in an economy is $2000 and the savings function is given by the S=-800+0.25Y, find equilibrium level of income. (4 marks)
11. Suppose consumption function is given by C=200+0.2Y, find the equilibrium level of income. (4 marks)
12. With aid of graphs discus the ranges of the aggregate supply curve. (8 marks)

**QUESTION TWO (20 MARKS)**

1. In Keynesian model, it is assumed that the consumption function is given by C=2000+0.75(Y-T) and planned investment is $1000, government purchases and taxes are both at $1000.
2. Formulate and draw a graph of planned expenditure as a function of income. (5 marks)
3. What is the equilibrium level of income in part (a)? (2 marks)
4. If the government purchases increases to $1250, what is the equilibrium income? (5 marks)
5. With the aid of algebra prove that the balanced budget multiplier is always equal to one. (8 marks)

**QUESTION THREE (20 MARKS)**

1. Clearly discuss the permanent income hypothesis theory of consumption. (8 marks)
2. You are given the following information

C=1100+0.65Yd

T=800+0.25Y

I=1200

G=1600

X=1700

M=900+0.1Y

1. Calculate the equilibrium national income. (4 marks)
2. Suppose the government transfers increase to 400, find the government expenditure multiplier. (2 marks)
3. You are further given the following economic model

Y=C+I+G

C=a+bYd

Derive the equilibrium national income and hence get balanced budget multiplier. (6 marks)

**QUESTION FOUR (20 MARKS)**

1. The goods market and money market of an hypothetical economy is given below.

C=100+0.6Y

I=200-20r

Ls=150-10r

Ms=1500

1. Derive the equation for I-S curve (2 marks)
2. Derive the equation for L-M curve (2 marks)
3. Determine the equilibrium level of income and interest rate. (6 marks)
4. If the money supply is increased by 100, what would be the effect on the equilibrium level of income and interest rate? (4 marks)
5. Explain the motives for holding money. (6 marks)

**QUESTION FIVE (20 MARKS)**

1. Given the following information

C=1300+0.75Yd

I=1600

G=1200

X=1500

M=850+0.25Y

T=700+0.1Y

Required:

1. Determine equilibrium income (4 marks)
2. Determine the level of consumption at equilibrium income. (4 marks)
3. Determine the balance of payment (4 marks)
4. Calculate the government expenditure multiplier (4 marks)
5. Calculate the imports multiplier. (4 marks)