



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

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MAY – AUGUST 2021

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FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

REGULAR PROGRAMME

ECN 311: INTERMEDIATE MACROECONOMICS

Date: AUGUST 2021

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any other TWO Questions

Q1.

a) Define the following terms as used in Macroeconomics

- i) Economy
- ii) Gross Domestic Product (GDP)
- iii) Recession
- iv) Potential Output
- v) Unemployment rate.

(2 marks

each)

b) Explain the factors that will determine our standards of living in the future.

(5 marks)

c) Account for similarities and differences between neoclassical growth and the endogenous growth models.

(5

marks)

d) Explain the effects of fiscal policy on interest rate (r) and income (Y).

(6

Marks)

- e) Using a well labelled diagram, explain the relationship between the level of interest rates and investment. (4 marks)

Q2.

- a) Given the following macroeconomic equations that describe a certain economy:

$$C = 100 + 0.8Y^d \quad \text{- Consumption function}$$

$$I = 10 + 10r \quad \text{- Investment function}$$

$$G = 10 \quad \text{- Government purchases}$$

$$T = 0.25 \quad \text{- Tax rate}$$

$$L = Y - 100r \quad \text{- Real money demand}$$

$$M = 295 \quad \text{- Real money supply}$$

Required

- i) Calculate the IS and LM equations. (4 Marks)
- ii) Y and r pair at which the two markets are both in equilibrium. (4 Marks)
- b) Explain three factors that affect the growth of any country. (6 Marks)
- c) Derive the tax multiplier and interpret (6 Marks)

Q3

- a) Using a four quadrant diagram, discuss the effect of the following on equilibrium rate (r) and income (Y).
- i) An increase in money supply (6 Marks)
- ii) An increase in price level (6 Marks)
- b) What accounts for differences in wealth between countries? (8 Marks)

Q4.

- a) With reference to the income and substitution effects give an account for the backward bending labor supply curve for the economy. (10 marks)
- b) Explain the Harrod Domar model of growth. (10 marks)

Q5.

- a) Explain the three methods of measuring National Income. (9 marks)
- b) List the components of the product and the money market. (6 marks)
- c) From the GNP basic identity, derive the savings – investment balance equation (5 Marks)

END