



# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

**A. M. E. C. E. A**

P.O. Box 62157  
00200 Nairobi - KENYA  
Telephone: 891601-6  
Fax: 254-20-891084  
E-mail: academics@cuea.edu

**MAIN EXAMINATION**

**JANUARY – APRIL 2017 TRIMESTER**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**REGULAR PROGRAMME**

**CEC 221: INTERMEDIATE MACROECONOMICS**

**Date: April 2017**

**Duration: 2 Hours**

**INSTRUCTIONS: Answer Question ONE and any other TWO Questions**

- Q1. a) Illustrate graphically the circular flow of income and expenditure in a four sector model. **(5 marks)**
- b) Explain the effect of adverse and favorable balance of trade on the size of circular flows. **(5 marks)**
- c) Does a deficit budget policy expand or contract the circular flows? **(5 marks)**
- d) Does a surplus budget policy expand or contract the circular flows? **(5 marks)**
- e) What is the impact of balanced budget on the circular flows of income? **(5 marks)**
- f) Explain the effect of adverse and favourable balance of trade on the size of circular flows. **(5 marks)**
- Q2. Highlight the key points of the following schools of economic thoughts. **(20 marks)**
- a) Classical economics
  - b) Keynesian economics
  - c) Monetarism
  - d) Real Business Cycle
  - e) New classical economics

- Q3. Identify and describe the four theories of consumption. **(20 marks)**
- Q4. a) Explain four different types of unemployment **(5 marks)**
- b) Discuss the reasoning behind the negative slope of the Phillips curve **(5 marks)**
- c) Does Phillips curve hold in the long run? **(5 marks)**
- d) Given the Philips relations , what kind of policy dilemma is faced by the policy Makers? **(5 marks)**
- e) Distinguish between demand- pull inflation and cost - push inflation. **(5 marks)**
- f) Describe policy prescription for demand pull and cost push inflation. **(5 marks)**

**\*END\***