



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

SEPTEMBER –DECEMBER 2021

FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

REGULAR PROGRAMME

ECN 311: INTERMEDIATE MACROECONOMIC THEORY

Date: DECEMBER 2021

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any 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 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:

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

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

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

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

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

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

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 the income and substitution effects give an account for the backward bending 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)

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END