PAN AFRICA CHRISTIAN UNIVERSITY

SCHOOL OF LEADERSHIP, BUSINESS & TECHNOLOGY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

BACHELOR OF COMMERCE

SEPTEMBER – DECEMBER 2017

CAMPUS: VALLEY ROAD

DEPARTMENT: BUSINESS

COURSE CODE: BCM300

COURSE TITLE: INTERMEDIATE MACROECONOMICS THEORY

EXAM DATE: THURSDAY 7th DECEMBER 2017

TIME: 5.30PM-8.30PM

<u>INSTRUCTIONS</u>

- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.
- This exam script has **TWO (2)** sections.
- Answer all questions in Section **A** and any other four questions in Section **B.**

SECTION ONE ANSWER ALL QUESTIONS {40 Marks}

Question 1

a) Define the following terms
   - **i)** Autonomous consumption expenditure **(3 Marks)**
   - **ii)** Inflation **(2 Marks)**
   - **iii)** Multiplier **(2 Marks)**

b) Using the expenditure approach calculate the GDP of the following hypothetical economy **(5 Marks)**

Item	Dollars('000)
Personal Consumption	2,757
Depreciation	400
Wages	3,254
Indirect Business Taxes	500
Interest	530
Domestic Investment	41
Government Expenditures	1,098
Rental Income	17
Corporate Profits	341
Exports	670
Net Foreign Factor Income	20
Proprietor's Income	403
Imports	510

c) Contrast between the following terms
   - **i)** Exogenous and Endogenous variables **(4 Marks)**
   - **ii)** IS curve and LM curve **(4 Marks)**
   - **iii)** The consumption function and the saving function **(4 Marks)**

d) Describe the characteristics of business cycle **(8 Marks)**

e) Explain the relationship between economic theory and economic model **(4 Marks)**

f) If consumption increases from Kes30,000 to Kes40,000/yr and disposable income increases from Kes84,000 to Kes96,500/yr, calculate the MPC **(4 Marks)**

SECTION TWO ANSWER ANY FOUR QUESTIONS {15 Marks Each}

Question 2

g) Differentiate between transaction motive and speculative motive in demand for money **(4 Marks)**

h) Explain the Aggregate Demand Curve **(6 Marks)**

i) Explain the"Quantity Theory of Money" **(5 Marks)**

Question 3

Write short notes on the following as regards the Aggregate Demand (AD) curve

i) The Wealth Effect **(5 Marks)**
ii) The Interest Rate Effect **(5 Marks)**
iii) The Exchange Rate Effect **(5 Marks)**

Question 4

j) Consider the following consumption schedule

Disposable Income	**Consumption**
Kes 1,000	Kes 600
Kes 1,500	Kes 900
Kes 2,000	Kes 1, 200

i) Calculate the Marginal Propensity to save **(4 Marks)**
ii) Derive the consumption function **(5 Marks)**

k) Explain **THREE** conditions that would shift the Long Run Aggregate Supply (LRAS) curve **(6 Marks)**

Question 5

Explain any **THREE** basic questions to be answered by an economic institution. **(6 Marks)**

Consider the following multiplier model

$C = 100 + 0.8Y$ $\quad\quad$ $I = 200$

where Y=disposable income

i) Calculate aggregate expenditure **(6 Marks)**
ii) If government injects 100 into the economy, what is the effect on GDP? **(3 Marks)**

Question 6

According to the IS-LM model, what happens in the short run to the interest rate, income, consumption, and investment under the following circumstances? Be sure your answer includes an appropriate graph.

m) The central bank increases the money supply. **(8 Marks)**
n) The government increases taxes. **(7 Marks)**