PAN AFRICA CHRISTIAN UNIVERSITY

END OF TRIMESTER EXAMINATION

DEPARTMENT: BUSINESS
COURSE CODE: BCM 300
COURSE TITLE: INTERMEDIATE MACROECONOMICS THEORY

EXAM DATE:

TIME: 3HRS

INSTRUCTIONS

- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.
- Answer FOUR questions **ONLY, Question one is compulsory**

QUESTION ONE (COMPULSORY)

a) Explain how each of the following main components of aggregate demand (AD)

influences macroeconomic equilibrium

i. Consumption (C) (1mk)

ii. Investment (I) (1mk)

iii. Government spending (G) (1mk)

iv. Net exports(X-M) (2mk)

b) Discuss any five reasons why GDP may not be a good measure of economy's total output

(5mks)

QUESTION TWO

Describe the following variables that influence consumption as the largest single component of aggregate expenditure:

i. Interest rates (2mks)

ii. Relative prices (2mks)

iii. Wealth (2mks)

iv. Attitudes and Expectations of the Consumer (2mks)

v. Availability of credit (2mks)

QUESTION THREE

Explain the following types of unemployment. Support your answer with examples

i. Seasonal unemployment (5mks)

ii. Structural unemployment (5mks)

QUESTION FOUR

Citing relevant examples, describe the following causes of inflation

i. Cost- push inflation (5mks)

ii. Demand- pull inflation (5mks)

QUESTION FIVE

The IS-LM model describes how aggregate markets for real goods and financial markets interact to balance the rate of interest and total output in the macroeconomy. Explain the effects of IS-LM equilibrium when;

i. The government decides to increase spending

(5mks)

ii. The government increases taxes

(5mks)

QUESTION SIX

In reference to the **Laffer Curve**, explain the short term and long-term effects of

Government taxation on the total tax revenues

(10marks)