PAN AFRICA CHRISTIAN UNIVERSITY

SCHOOL OF LEADERSHIP, BUSINESS & TECHNOLOGY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

BACHELOR OF COMMERCE

SEPTEMBER-DECEMBER 2019

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS STUDIES

COURSE CODE: BCM300

COURSE TITLE: INTERMEDIATE MACRO ECONOMICS

EXAM DATE: MONDAY 2ND DECEMBER 2019

DURATION: 2 HOURS

TIME: 9:00AM-11:00AM

INSTRUCTIONS

- Read the instructions and questions carefully before you write the answers.
- Write your **STUDENT NUMBER** in the Answer Booklet given
- *Write clearly and legibly.*
- This exam script consists of **Six (6)** questions.
- Answer ALL q**uestions in SECTION A (compulsory)** and A**ny other three (3)** questions from **SECTION B**
- *ALL PAC University's examination rules and regulations apply*

SECTION A: ANSWER ALL QUESTIONS FROM THIS SECTION

QUESTION ONE: COMPULSORY [30MKS]

(a) Using appropriate examples distinguish the following pairs of terms:

(i) Leakages and injections (with reference to National income accounting) [4mks]
(ii) Current account and capital account (with reference to international trade). [4mks]

(b) Discuss two approaches of measuring national income. [4mks]

(c) Explain three advantages of using floating exchange rate system as opposed to fixed exchange rate system. [6mks]

(d) A hypothetical economy is described by the following goods and money markets equations.

$$C = 200 + 0.25Y^d$$
$$I = 150 + 0.25Y - 1000i$$
$$G = 250$$
$$T = 200$$
$$M^d = 2Y - 8000i$$
$$M^s = 1600$$

Derive:

(i) The LM curve [3mks]
(ii) The IS curve [5mks]
(iii) The equilibrium level of income and interest rate. [4mks]

SECTION B: ANSWER ANY THREE QUESTIONS

QUESTION TWO [10MKS]

(a) Using diagrams, explain the effect of expansionary fiscal policy on aggregate demand and income when the economy is:
(i) At full employment level [5mks]
(ii) Not in full employment level [5mks]

QUESTION THREE

(a) Differentiate between absolute income hypothesis and permanent income hypothesis.

[4mks]

(b) Explain three objectives of macroeconomic policy in Kenya. [6mks]

QUESTION FOUR [10MKS]

(a) With reference to labor markets, define the term efficiency wages. [2mks]
(b) Discuss four reasons why some firms would choose to pay efficiency wages. [8mks]

QUESTION FIVE [10MKS]

Use diagrams to explain the effect of the following policies on the balance of payments (BoP).
(a) A decrease in domestic interest rate compared to world interest rate. [4mks]
(b) A depreciation of the exchange rate. [6mks]

QUESTION SIX [10MKS]

(a) Explain the postulations of the Philips curve with reference to Kenyan economy. [4mks]

(b) Outline three measures used by the Central Bank to manage inflation in the country. [6mks]