PANAFRICACHRISTIAN UNIVERSITY

BACHELOR OF COMMERCE

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE: BCM300

COURSE TITLE: INTERMEDIATE MACROECONOMICS THEORY

EXAM DATE:

TIME: 1500HRS – 1800HRS

ROYSAMBU EVENING

INSTRUCTIONS

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

SECTION ONE **ANSWER ALL QUESTIONS {40 Marks}**

Question 1

a) Explain the Aggregate Supply Curve **(6 Marks)**

b) Contrast between the following terms

i) expansionary and contractionary fiscal policy **(4 Marks)**

ii) Marginal propensity to consume and marginal propensity to save **(4 Marks)**

c) Explain **THREE** causes of inflation **(9 Marks)**

d) Describe the following as used in macroeconomics

i) The long run model **(2 Marks)**

ii) The short run model **(2 Marks)**

iii) National income **(3 Marks)**

iv) Business cycle **(2 Marks)**

e) Describe **TWO** fiscal measures that can be used to resolve the problem of inflation in developing countries **(4 Marks)**

f) Using the income approach, calculate the GDP of the following hypothetical economy **(5 Marks)**

Personal Consumption	4,637
Depreciation	400
Wages	3,389
Indirect Business Taxes	500
Interest	610
Domestic Investment	741
Government Expenditures	1,098
Rental Income	13
Corporate Profits	431
Exports	673
Net Foreign Factor Income	20
Proprietor's Income	394
Imports	704

SECTION TWO ANSWER ANY FOUR QUESTIONS {15 Marks Each}

Question 2

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 3

g) When Charles has an income of Kes 1,000, he spends Kes 500. When his income increases to Kes 2,000, he spends Kes 900.
- **i)** Calculate his Marginal Propensity to Save (MPS) **(4 Marks)**
- **ii)** Derive the Consumption Function **(5 Marks)**

h) Discuss any **TWO** phases of the business cycle **(6 Marks)**

Question 4

According to the IS-LM model, what happens in the short run to the interest rate, income, consumption, and investment under the following circumstance? Be sure your answer includes an appropriate graph.
- i) The government increases government purchases. **(8 Marks)**
- ii) The government increases taxes. **(7 Marks)**

Question 5

i) Describe the expenditure and income methods of calculating national income **(8 Marks)**
j) Discuss the factor that would cause a shift in the LM curve **(7 Marks)**

Question 6

Discuss the multiplier effect concept as used in macroeconomics **(6 Marks)**
Consider the following multiplier model for a simple economy
C=430 + 0.67Y I= 98
where Y=disposable income, C=Consumption and I=autonomous investment
- **i)** Calculate aggregate expenditure **(6 Marks)**
- **ii)** Suppose businesses inject 165 private investments into the economy, what is the effect on GDP? **(3 Marks)**

End of Exam