KISII UNIVERSITY
UNIVERSITY EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE AWARD OF THE DEGREE OF BACHELOR OF IN SOCIOLOGY AND ECONOMICS
SECOND SEMESTER 2021/2022
[JUNE-SEPTEMBER, 2022]

ECON 222: INTERMEDIATE MACRO-ECONOMIC THEORY

STREAM: Y2S2 **TIME: 2 HOURS**

DAY: THURSDAY, 3:00 – 5:00 PM **DATE: 15/09/2022**

INSTRUCTIONS
1. ***Do not write anything on this question paper.***
2. ***Answer question ONE (Compulsory) and any other THREE questions.***

QUESTION ONE

a) Explain three effects of fiscal policy on IS-LM model. [6 marks]

b) Explain the theory of liquidity preference. [3 marks]

c) Discuss three reasons why people hold money. [6 marks]

d) Define the term LM curve. [2marks]

e) Discuss three factors that would cause a shift in the LM curve [6 marks]

QUESTION TWO

a) Explain three assumptions of Mundell- Fleming model [6 marks]

b) Differentiate between the following paired concepts [4 marks]

   a. Current account and capital account

   b. Life cycle hypothesis and permanent income hypothesis

c) Explain any five factors that determine the economic growth of a country (5marks)

QUESTION THREE

a)A hypothetical closed economy has a national income model of the form y = C + I + G where C = 30 + 0.8Y and I and G and private investment and government expenditure are exogenously determined t 50 and 80 units respectively. Compute the national equilibrium level of income for this economy using aggregate income equals aggregate expenditure and withdrawals and equal injection methods. (10 marks)

b) Briefly explains the Keynesian Theory of Consumption (5 marks)

QUESTION FOUR

In the Keynesian cross model, assume that the consumption function is given by

C=200+0.75(Y-T) and planned investment=100, government purchases and taxes are ach of them100

a) Draw a graph of planed expenditure as a function of income (5 marks)

b) What is equilibrium level of income? (5 marks)

c) If government purchases increase to 125 what is the new equilibrium income (5 marks)

QUESTION FIVE

a) Explain any five factors that determine the economic growth of a country (10 marks)

b) Use the theory of liquidity preference to explain why an increase in the supply of money lowers the interest rate. (5 marks)