

KISII UNIVERSITY

SCHOOL OF ARTS AND SOCIAL SCIENCES

BACHELOR ECONOMICS AND SOCIOLOGY

COURSE ECON 222: INTERMEDIATE MACRO-ECONOMIC THEORY

Y2S2

*Answer Question **ONE** which is **COMPULSORY** and any other **TWO** questions*

QUESTION ONE

- i. Explain three models of macro-economics.(6 marks
- ii. Explain the theory of liquidity preference. (4 marks
- iii. Discuss three reasons why people hold money. (6 marks
- iv. Explain four fiscal measures that can be used to resolve the problem of inflation. (8 marks
- v. Differentiate between the following concepts: (6mks
Life cycle hypothesis and permanent income hypothesis

QUESTION TWO

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

QUESTION THREE

- i) Explain any five factors that determine the economic growth of a country (10 marks)
- ii) Discuss the Keynesian consumption function .(5 marks)
- iii) Identify and explain the kinds of inflation. (5 marks

QUESTION FOUR

- a) According to Mundell Fleming model, when the exchange rates are fixed and capital is perfectly mobile will fiscal and monetary policy be more successful? Explain(10 Marks)
- b) What are the advantages of floating exchange rates and fixed exchange rates? (5 marks)
- c) Discuss the Keynesian consumption function (5 marks)

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