



UNIVERSITY EXAMINATIONS
SECOND YEAR EXAMINATION FOR THE AWARD OF THE DEGREE OF
BACHELOR OF SCIENCE IN ACTUARIAL SCIENCE
SECOND SEMESTER 2022/2023
[JANUARY-APRIL, 2023]

BBAM 202: INTERMEDIATE MACRO-ECONOMIC THEORY

STREAM: Y2S2

TIME: 2 HOURS

DAY: THURSDAY, 3:00 – 5:00 PM

DATE: 20/04/2023

INSTRUCTIONS

- 1. Do not write anything on this question paper.**
- 2. Answer question ONE and any other TWO questions.**

QUESTION ONE

- Define the LM curve (2 marks)
- Define the aggregate supply curve (2 marks)
- Explain the two theories of aggregate supply (6 marks)
- Explain the permanent income hypothesis (5 marks)
- Explain the reasons for firms holding inventory (5 marks)
- Explain the various categories of investment (5 marks)
- What is the difference between the classical and Keynesian supply curve (5 marks)

QUESTION TWO

- 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 to 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

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 each of them 100

- a) Draw a graph of planned 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)
- d) What level of government purchases is needed to achieve the income of 1600? (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)