



MUEO

# **MOI UNIVERSITY**

OFFICE OF THE DEPUTY VICE CHANCELLOR (A,R&E)

## **UNIVERSITY EXAMINATIONS**

**2017/2018 ACADEMIC YEAR**

**SECOND YEAR FIRST SEMESTER EXAMINATION**

### **FOR THE DEGREE OF BACHELOR OF ARTS IN ECONOMICS**

**COURSE CODE: ECO 211**

**COURSE TITLE: INTERMEDIATE MACRO ECON**

**DATE: 4<sup>TH</sup> DECEMBER 2018      TIME: 9.00 – 12.00 NOON**

---

#### **INSTRUCTION TO CANDIDATES**

**SEE INSIDE**

## ECO 211: INTERMEDIATE MACROECONOMICS

**INSTRUCTIONS: Answer Question ONE and any other THREE Questions**

### QUESTIONS ONE

- With the aid of a well labelled diagram, describe the circular flow of income and expenditure in a four-sector model economy. (6 marks)
- Explain the essential elements of Ando-Modigliani's life cycle theory of consumption (5 marks)
- Explain the relationship between output and employment with regards to the accelerator theory. (5 marks)
- Discuss the instruments of the central bank of Kenya employs to determine the supply of money in the economy (5 marks)
- Give the main differences between the classical and Keynesian schools of thought (4 marks)

### QUESTION TWO

- Consider an economy described by the following equations (in USD billions)

Consumption function;  $C = 100 + 0.75Y_d$

Investment function;  $I = 125 - 600i$

Government spending;  $G = 50$

Tax function;  $T = 20 + 0.2Y$

Supply of money;  $M_s = 200$

Demand for money;  $M_d = 135 + 0.25Y - 600i$

- Derive the IS and the LM equations (6 marks)
- Calculate the equilibrium national income and interest rate (4 marks)
- Discuss the crowding out effect of expansionary fiscal policy. What determines the magnitude of crowding out by expansionary fiscal policy (5marks)

### QUESTION THREE

- Suppose that for a particular economy, (K€ billions)

$$C = 100 + 0.6Y_d$$

$$I = 50$$

$$G = 200$$

$$TR = 100$$

$$T = 100 + 0.1Y$$

$$X = 150$$

$$M = 20 + 0.02Y$$

- Determine the equilibrium values for all endogenous variables (8marks)

- ii) Determine the government's budget position and balance of trade of the economy (2marks)
- iii) How will the following changes affect the national income and multiplier
  - An increase in government spending
  - A decrease in the tax rate
  - An increase in the MPC

(5 marks)

#### QUESTION FOUR

- a. What was the classical view of attaining full employment? What determines the level of employment and output according to the Classical economists (7 marks)
- b. What was Keynes view of attaining full employment? (4 marks)
- c. What are the differences between the Fisher's and Cambridge versions of the Quantity theory of money? (4 marks)

#### QUESTION FIVE

- a. What are the main causes of unemployment in Kenya? (5 marks)
- b. Recommend Possible policy options that can be taken to reduce the level of unemployment in Kenya (3 marks)
- c. The central bank of Kenya introduced interest rate capping in 2016. The main objective was to make borrowing affordable. Has this policy achieved its objectives? (7 marks)

#### QUESTION SIX

- a. Discuss the main causes of inflation (6 marks)
- b. Illustrate using the Philips curve how policies recommended to reduce inflation in an economy may worsen the unemployment situation in the economy (4 marks)
- c. Explain the following forms of Fiscal Policy
  - i) Automatic stabilization policy
  - ii) Compensatory Fiscal Policy
  - iii) Discretionary fiscal policy

(5 marks)

