



MUEO

MOI UNIVERSITY

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

UNIVERSITY EXAMINATIONS 2022/2023 ACADEMIC YEAR SECOND YEAR SECOND SEMESTER EXAMINATIONS

COURSE CODE: ECO 211

COURSE TITLE: INTERMEDIATE MACROECONOMICS

DATE: 9TH DEC, 2022 **TIME:** 2.00 – 5.00 PM

INSTRUCTION TO CANDIDATES

THIS PAPER CONSISTS OF (3) PRINTED PAGES

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SEE INSIDE

ECO 211: INTERMEDIATE MACROECONOMICS

INSTRUCTIONS: Answer Question ONE And Any Other THREE Questions

QUESTION ONE

- a) The level of consumption is determined only by the level of income, be it absolute, relative or permanent. Discuss (4 marks)
- b) Explain the relationship between output and investment according to the accelerator theory of investment (3 marks)
- c) Explain the at least four limitations on the power of banks to create credit (4 marks)
- d) Describe the instruments of monetary and fiscal policies. Explain how monetary and fiscal policies are applied to achieve macroeconomic objectives of the country (8 marks)
- e) Describe the propositions of the Keynesian theory of demand for money. Critically evaluate the theory. (6 marks)

QUESTION TWO

- a) Discuss the concept of the balanced budget theorem and prove that the balanced budget multiplier is always equal to one (6 marks)
- b) Describe the reasoning behind the negative slope of the Phillips curve. What are the policy implications of the tradeoff between the rate of inflation and the rate of unemployment (5 marks)
- c) Explain the determinants of money demand according to the Keynesian liquidity preference theory (4 marks)

QUESTION THREE

- a) Describe at least three different types of unemployment (3 marks)
- b) Explain three roles of central bank in an economy (3 marks)
- c) The level of unemployment among the youth in Kenya is very high.
 - i) Explain some of the major causes of this situation (4 marks)
 - ii) Give policy recommendations that can be implemented to alleviate the problem (5 marks)

QUESTION FOUR

a) Consider an economy described by the following equations:

Consumption	$C = 400 + 0.75Y^d$
Investment	$I = 200 - 100r$
Tax	$T = 70 + 0.2Y$
Government expenditure	$G = 100$
Exports	$X = 200$
Imports	$M = 150 + 0.05Y$
Money Demand	$M_d = 0.5Y - 20r$
Money Supply	$M_s = 200$

Required:

- i) Derive the IS and LM equations (6 marks)
- ii) Calculate the equilibrium level of national income and interest rate (4 marks)
- iii) Suppose money supply increases by 40 billion. How will this affect national income and the rate of interest? (5 marks)

QUESTION FIVE

- a. Distinguish between floating and flexible exchange rate regimes (6 marks)
- b. The Central Bank of Kenya introduced interest rate capping policy in 2016. The main objective was to make borrowing affordable. However the policy didn't end up achieving the desired objective and was rescinded in 2019. Critically evaluate the possible reasons why the policy failed (4 marks)
- c. Explain the following forms of Fiscal Policy
 - i) Automatic stabilization policy
 - ii) Discretionary fiscal policy (5 marks)

QUESTION SIX

- a. Derive an IS and LM curve. Give their properties. [Hint: Explain their slopes and shifts.] (5 marks)
- b. Use the IS-LM technique to analyze the effects of simultaneous increase in autonomous investment and money supply. (5 marks)
- a. Describe the essential features of the Keynesian consumption theory. State the main drawback of this theory. (5 marks)

