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MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS**

**2016/2017 ACADEMIC YEAR**

**THIRD YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF ARTS ECONOMICS**

**COURSE CODE: ECO 311**

**COURSE TITLE:** **INTERMEDIATE MACROECONOMICS**

**DATE: 6TH JULY, 2017 TIME: 1100 – 1300HRS**

**INSTRUCTIONS TO CANDIDATES**

Answer Question **ONE** and any other **THREE** questions

*This paper consists of* ***THREE***  *printed pages. Please turn over.*

**QUESTION 1**

1. Compare and contrast the significance of the demand management policies under the following schools of thought
2. Keynesian school of thought **(3mks)**
3. Classical school of thought **(3mks)**
4. using a country of your choice as an example, explain how fixed exchange rates are sustained. **(5mks)**
5. given the following equations of a hypothetical economy;

C=100+0.08Yd (Consumption function)

I=10-10r (Investment function)

G=10 (Government expenditure)

T=0.25+0.3Y (Tax function)

L=Y-100r (Money demand)

M=295 (Real money supply)

**Required**

1. compute the general equilibrium income **(2mks)**
2. derive the IS and LM Equations **(5mks)**
3. compute the values of C,I and L at the equilibrium income    **(3mks)**

d) In order to demonstrate your understanding of the Keynesian theory, systematically discuss the contribution of Keynes to the theory of money.

**(8mks)**

**QUESTION 2**

1. By the use of short notes explain the foundations of classical model and provide a clear argument against each as provided by J.M Keynes. (**11mks)**
2. Explain the difference between currency devaluation and currency appreciation. (**4mks)**

**QUESTION 3**

1. Using well labeled diagrams, analyse the impact of an increase in money supply in the classical model, followed by a detailed explanation.    **(8mks)**
2. Explain the assumption of absolute income hypothesis **(7mks)**

**QUESTION 4**

1. Compare and contrast the capital account and the current account of the balance of payments. (**4mks)**
2. Explain the J-curve phenomena (**5mks)**
3. Explain the effects of monetary policy in the three ranges of the LM curve.

    (**6mks)**

**QUESTION 5**

1. Using well labeled diagrams, Explain the adjustment of the balance of payments deficit under flexible exchange rate. (**7mks)**
2. Explain any four types of unemployment (**8mks**)

**//END**