

MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS**

**2017/2018 ACADEMIC YEAR**

**THIRD YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF ARTS IN ECONOMICS**

**COURSE CODE: ECO 311**

**COURSE TITLE: INTERMEDIATE MACROECONOMICS**

**DATE: 24TH AUGUST 2018 TIME: 1430-1630HRS**

**INSTRUCTIONS TO CANDIDATES**

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

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

**Question One**

a) Consider an economy described by the following macroeconomic model:

C = 600 + 0.8Yd (Consumption function)

I = 50 (Investment)

G = 50 (Government spending)

X = 10 (Exports)

M = 5+0.1Y (Import function)

T = 50 + 0.25Y (Tax function)

Where Y = national income and Yd = disposable national income

1. Compute the disposable income and net export that correspond to the equilibrium level of income **(4 marks)**
2. What is the balance of trade from 1(a) (i) above? Classify the economy on the basis of economic development and explain why it is experiencing the balance of trade you have identified **(5 marks)**

b) Explain the use of multiplier in economic analysis **(6 marks)**

c) Discuss the following theories of consumption

1. Relative income hypothesis **(5 marks)**
2. Life cycle hypothesis **(5 marks)**

**Question Two**

Consider a hypothetical economy described by the following equations

C = 90 + 0.625Yd (Consumption function)

I = 150 – 100r (Investment function)

G = 20 (Government spending)

T = 60 + 0.2Y (Tax function)

Ms = 180 (Money supply)

Mt = 0.25Y (Transactions demand for money function)

Msp = 50 – 200r (Speculative demand for money function)

Where r = rate of interest and Y = income

1. Compute the equilibrium values of Y and r that simultaneously clear the money and product markets **(8marks)**
2. Explain how a balance of payment deficit is solved under fixed exchange rate regime **(7marks)**

**Question Three**

1. Considering the theoretical and policy points of view, discuss the difference between the Keynesian macroeconomics and monetarism **(7marks)**
2. With reference to Keynesian theory, explain why economic agents desire to hold money **(4marks)**
3. Given:

Money supply = KSh. 800 billion

k =

Real GNP = KSh 1600 billion

Calculate money supplied for speculative purpose **(4marks)**

**Question Four**

1. Discuss the macroeconomic variables that have greatest effects on money demand **(6marks)**
2. Suppose the level of autonomous investment in an economy is KSh. 200 and consumption function is given by:

C = 80 + 0.75Y

What will be the equilibrium income **(4marks)**

1. Explain the real economic variables that any economic policy must change **(5marks)**

**Question Five**

1. Explain how fixed exchange rates are sustained **(5marks)**
2. To increase aggregate demand, the central bank needs to increase money supply and lower interest rate. How does the central bank achieve this **(6marks)**
3. Derive the balance of payment curve **(4marks)**

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