MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF SCIENCE IN AGRI-BUSINESS MANAGEMENT AND TRADE

AGB 411: INTERMEDIATE MACROECONOMICS

DATE: 16/8/2021   **TIME: 8.30-10.30 AM**

INSTRUCTIONS:

i)   **Answer question ONE and any other TWO questions. Question one carries 30 marks and the other questions carry 20 marks each.**

ii)   **Do not write on the question paper**

QUESTION ONE (30 MARKS)

a)   With the aid of well labelled diagram, describe how Kenya using flexible exchange rate system can eliminate deficit in the balance of payment.   (8 marks)

b)   The Kenyan economy is in depression as a result of Covid 19 pandemic. What monetary and fiscal policies do you think the national government can enforce in order for the economy to recover?   (8 marks)

c)   The following equations describe a certain economy:

$C = 400 + 0.75Y$

$I = 200 - 100r$

$G = 100$

$M_D = 0.2Y - 10r$ - demand for money

$MS = 4000$-Money supply

Required:

i)   Determine equilibrium levels of income and interest rate for this economy.

(6 marks)

ii)   Using a well labelled diagram, illustrate equilibrium conditions in part (i) (4 marks)

iii)   If money supply increases by 50, what would be the effect on the equilibrium level of income and rate of interest?   (4 marks)

QUESTION TWO (20 MARKS)

a) With high external debt, Kenya is under pressure to increase taxes as a strategy of managing the debt levels. Explain any **Four** likely effects of such a strategy on the Kenyan economy.

(8 marks)

b) Differentiate between the devaluation and the depreciation of a currency.   (4 marks)

c) Explain the concept of crowding out effect.   (4 marks)

d) Discuss **Two** strategies that Kenya should adopt to eliminate BOP deficit.   (4 marks)

QUESTION THREE (20 MARKS)

a) Write short notes on the following theories of consumption:

   i.   Absolute income hypothesis;

   ii.   Relative income hypothesis;

   iii. Permanent income hypothesis;

   iv.   Life cycle income hypothesis**;**   (12 marks)

b) Using a well labelled diagram, explain the J-curve phenomenon.   (8 marks)

QUESTION FOUR (20 MARKS)

a) On what grounds did Keynesian criticize the classical view of economics?   (10 marks)

b) Explain the likely effects of expansionary fiscal policy on the Kenyan economy.   (10 marks)

QUESTION FIVE (20 MARKS)

a) Explain the following terms as used in macroeconomics.

   i.   Government expenditure multiplier.   (2 marks)

   ii.   Investment multiplier.   (2 marks)

b) In your view, why has an unemployment become an issue of concern in developing countries?

(10 marks)

c)   Discuss the cost of expected inflation.   (6 marks)