MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FOURTH YEAR SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF SCIENCE IN AGRI-BUSINESS MANAGEMENT AND TRADE

AGB 411: INTERMEDIATE MACROECONOMICS

DATE: 27/9/2019 **TIME: 8.30-10.30 am**

INSTRUCTIONS:

- **(i)** **Answer question one (Compulsory) and any other two questions**
- **(ii)** **Do not write on the question paper**
- **(iii)** **Show your working clearly**

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Explain the following concepts:

(i) Income velocity and Nominal Income (2 marks)

(ii) Discretionary and Automatic Stabilization (2 marks)

(iii) Capital market and goods market (2 marks)

b) Using a well labeled diagram explain the adjustment to balance of payment deficit under flexible exchange rate (10 marks)

c) Discuss the role of fiscal policy in classical economics (10 marks)

d) Explain two motives of money demand (4 marks)

QUESTION TWO (20 MARKS)

a) Discuss the main features of relative income hypothesis and its application in African context (10 marks)

b) Using monetary policy, explain how central bank of a country intervenes so as to regulate the economy in case of inflation (10 marks)

QUESTION THREE (20 MARKS)

a) The following equations relate to a certain economy:

$T = 0.25Y$ (Tax rate)

$L = Y - 100r$ (Real money demand)

$M = 295$ (Real money supply)

$I = 10 - 10r$ (Investment function)

$G = 10$ (Government purchases)

$C = 100 + 0.8$ (Consumption function)

Required

i) Derive equations for IS and LM curves (6 marks)

ii) Determine the r and y pair at which the two markets are clearing (4 marks)

iii) Compute the values of C, I and L (6 marks)

b) Differentiate between demand side and supply side of the economy (4 marks)

QUESTION FOUR (20 MARKS)

a) Using well labeled diagrams, analyze the impact of an increase in money supply in the classical model followed by a detailed explanation (10 marks)

b) In order to demonstrate your understanding of the Keynesian theory, systematically discuss the contribution of Keynes to the theory of money (10 marks)

QUESTION FIVE (20 MARKS)

a) Using a well labeled diagram, show the equilibrium market rate of interest when speculative demand curve and speculative money supply intersect. Explain what happens when speculative money supply and speculative demand for money are not equal.

(10 marks)

b) Explain the differences between Classical and Keynesian schools of thought

(10 marks)

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