# MAASAI MARA UNIVERSITY

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

## SCHOOL OF BUSINESS AND ECONOMICS
## BACHELOR OF SCIENCE IN ECONOMICS/FINANCIAL ECONOMICS/ECONOMICS AND STATISTICS
## BACHELOR OF ARTS IN EDUCATION
## BACHELOR OF COMMERCE/PROJECT PLANNING/ENTREPRENEURSHIP

## COURSE CODE:  ECO 2203-1
## COURSE TITLE: INTERMEDIATE MACROECONOMICS

DATE: 19/4/2023                              TIME: 1430-1630 HRS

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**INSTRUCTIONS TO CANDIDATES**
*Answer question **ONE (compulsory)** and any other **TWO** questions.*

## QUESTION 0NE   (20 MARKS)

a) Briefly discuss the following concepts as used in Macroeconomics. Use diagrams where necessary:

    i   Liquidity Trap

    ii  The J-curve phenomenon                    **(4 Marks)**

b) Using a well labelled diagram, discuss how a Country can eliminate a Balance of Payment Deficit under a Fixed Exchange Rate regime **(6 Marks)**

c) Discuss the three main reasons for Transitional Unemployment **(3 marks)**

d) Given the following equations for Narok County's economy:

$$C=100+0.6Y^d \text{ - Consumption function}$$

$$I=800-10r \text{ – Investment function}$$

$$G=200 \text{ – Government expenditure}$$

$$T=0.2Y \text{ – Tax rate}$$

$$L_t=0.4Y \text{ – Transactions demand for money}$$

$$L_{sp}= 10 – 2r \text{ – Speculative demand for money}$$

$$M_s=1200 \text{ – Money supply}$$

**Required**

  i.   Derive equations for IS and LM curves.             **(3 marks)**

  ii.  Compute the equilibrium values for Consumption and Investment

                                     **(4 marks)**

## QUESTION TWO (15 MARKS)

Kenya's open economy has the following functions in billion shillings:

    Consumption = $a +bY^d$

    Tax = $T + tY$

    Planned Investment = 50

    Planned Government Expenditure = 50

    Planned Exports = 10

    Imports = $5 + mY$

    Marginal Propensity to Consume = 0.8

Proportionate Income Tax rate = 0.25

Marginal Propensity to Import = 0.1

Autonomous Consumption = 100

Lumpsum Tax = 50

Compute:

  i.  Equilibrium national income
 ii.  Foreign Trade Multiplier
iii.  Balanced Budget Multiplier with Proportional Tax
 iv.  Equilibrium value of consumption
  v.  Equilibrium value of imports
 vi.  Trade Balance
vii.  Change in National Income resulting from 5 billion rise in Government Expenditure **(15 Marks)**

**QUESTION THREE (15 MARKS)**

a) With the aid of a diagram, discus the Ando-Modiglliani theory of Consumption.

**(5 marks)**

b) Using a diagram, discuss the effects of Monetary Policy in the three ranges of the LM function. **(5 marks)**

c) Discuss the impact of unemployment in Kenya. **(5marks)**

**QUESTION FOUR (15 MARKS)**

a) Using well labeled diagrams, analyze the impact of an increase in money supply on the Interest Rate in the classical model. **(5 marks)**

b) Briefly discuss the determinants of money supply **(3 marks)**

c) Inflation is a decrease in the purchasing power of money, reflected in a general increase in the prices of goods and services in an economy. In the recent past, Kenya has experienced increased inflation rate which has had negative effects. Using Fiscal Policies as anti-inflationary measure, discuss how the Government of Kenya can control inflation. **(7 marks)**

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