



MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS

2017/2018 ACADEMIC YEAR

SECOND YEAR SECOND SEMESTER

**SCHOOL OF BUSINESS AND ECONOMICS
BACHELOR OF ARTS IN ECONOMICS**

COURSE CODE: ECO 2203

COURSE TITLE: INTERMEDIATE MACROECONOMICS

DATE: 30TH APRIL, 2018

TIME: 0830 - 1030HRS

INSTRUCTIONS TO CANDIDATES

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

This paper consists of 3 printed pages. Please turn over.

QUESTION ONE

(a) Define the following terms

- (i) Transitory income
- (ii) Liquidity preference
- (iii) Investment multiplier

(6 marks)

(b)

- (i) Use a well-labeled the effectiveness of monetary and fiscal policies over different ranges of elasticities of the IS-LM curves **(9 marks)**
- (ii) State any 2 possible causes of a shift in the IS curve **(2 marks)**

(c) The commodity market and money markets for an economy are defined by the following equations:

Commodity market

$$Y = C + I$$
$$C = 200 + \frac{2}{5}Y$$
$$I = 1900 - 12r$$

Money market

$$M_{DT} = \frac{1}{2}Y$$
$$M_{DS} = 100 - 10r$$
$$M_S = 1500$$

- (i) Derive the IS and LM functions for the economy **(4 marks)**
- (ii) What is the equilibrium income and rate of interest for the economy

(4 marks)

QUESTION TWO

- (a) Use a four-quadrant diagram to illustrate the effect of an increase in money supply in the classical model. **(10 marks)**
- (b) Use a diagram to illustrate the J-Curve phenomenon **(5 marks)**

QUESTION THREE

- (a) With the aid of a well-labeled diagram, demonstrate the concept of Classical Crowding Out Effect **(8 marks)**
- (b) Discuss the 3 motives of holding money according to the Keynesian thinking (use diagrams or equations) **(9 marks)**

QUESTION FOUR

- (a) Define Liquidity Trap **(2 marks)**
- (b) Use a well-labeled diagram to illustrate the concept of Liquidity Trap **(7 marks)**
- (c) Discuss 3 key criticisms by Keynes of the Classical arguments about equilibrium adjustment in the economy **(6 marks)**

QUESTION FIVE

- (a) Use a well-labeled diagram to illustrate how a deficit in the Balance of Payment is corrected under a flexible exchange rate regime **(9 marks)**
- (b) Differentiate between:
- (i) Appreciation and depreciation of currency
 - (ii) Devaluation and revaluation of currency **(6 Marks)**

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