



(University of Choice)

**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

SPECIAL/SUPPLEMENTARY

**UNIVERSITY EXAMINATIONS
2016/2017 ACADEMIC YEAR**

**SECOND YEAR SECOND SEMESTER EXAMINATIONS
FOR BACHELOR OF SCIENCE ECONOMICS**

COURSE CODE: ECO 205

COURSE TITLE: INTERMEDIATE MACROECONOMICS

DATE: 25/9/2017, Monday

TIME: 12PM-2PM

INSTRUCTIONS TO CANDIDATES

ATTEMPT QUESTION ONE AND ANY OTHER TWO QUESTIONS

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of **2** Printed Pages. Please Turn Over.

QUESTION 1

- a. Describe how J.M. Keynes revolutionized the concept of macroeconomic policy and explain how this applies to Kenya's poverty reduction policy today. (15 marks)
- b. With reference to Kenya's external current account, explain how the balance of payments is derived and describe, using a clear illustration, the implications of the J curve in correcting a current account deficit. (15 marks)

QUESTION 2

- a) Describe in detail the national transactions that may create distortions in national income accounting. (4 marks)
- b) Your country has reported a GDP of US\$ 80 billion in 2015, with an estimated GDP growth of 8% and 4% inflation rate per year. Evaluate the following for 2016:
 - i. Nominal GDP (3 marks)
 - ii. Real GDP (3 marks)
 - iii. The GDP deflator and its economic implications (3 marks)
- c) Explain how the government can intervene, using fiscal and monetary policy, to reduce the rate of inflation. (7 marks)

QUESTION 3

Given the following data for a developing country :

Consumption	$C = 200 + 0.8Y$
Investment	$I = 50$
Government Spending	$G = 60$
Aggregate expenditure	$AE = C + I + G + (X - M)$
Equilibrium income	$Y = AE$

Required:

- a) Find Equilibrium income (5 marks)
- b) Derive the government spending multiplier and explain the economic implications of your findings (5 marks)
- c) How much is aggregate expenditure (AE) if income $Y = 1000$? (5 marks)
- d) If government spending increased to 80, evaluate its impact on equilibrium income. (5 marks)

QUESTION 4

- a. Describe, using clear diagrams, how the IS-LM curve of a small economy is derived and identify the general equilibrium level of the economy. (10 marks)
- b. Explain and illustrate the impact of fiscal and monetary policy on the general equilibrium of a developing country (10marks)

QUESTION 5

- a. Discuss the adverse effects of on society of a high rate of unemployment. (10 marks)
- b. Critically analyze the impact of structural adjustment programs in curbing unemployment in Kenya (10 marks)