



(University of Choice)

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

MMUST MAIN EXAMINATION

**UNIVERSITY EXAMINATIONS
2022/2023 ACADEMIC YEAR**

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

COURSE CODE: ECO 205

COURSE TITLE: INTERMEDIATE MACROECONOMICS

DATE: THURSDAY 15/12/2022 TIME: 12:00 -14:00

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 4 Printed Pages. Please Turn Over.

QUESTION ONE

a) The product four sector product marked model is given as

$C = 10 + 0.75 Y_d$	(Consumption function)
$I = 20 - 2,000 r$	(Investment Expenditure)
$L = Y - 1,000 r$	(Demand for money)
$G = 50$	(Government expenditure)
$T = 40$	(Tax revenue)
$M = 90$	(Money supply)

- i) Derive equations for IS and LM curves. (4marks)
- ii) Compute equilibrium level of interest rate (r) and income (Y). (6marks)
- iii) Explain any two factors that cause shift in IS and LM curves. (3 marks)

b) Compare and contrast Absolute Income Hypothesis and Relative Income Hypothesis (8 marks)

c) State four fiscal measures that can be used to resolve the problem of inflation (4 marks)

d) State the role of financial system in the economy. (5marks)

QUESTION TWO

a) Consider an economy described by the following equations:

$S = -200 + 0.2Y_d$	(Savings function)
$I = 100$	(Planned Investment)
$G = 200$	(Government Purchases)
$T = 150$	(Taxes)

- i) Derive the consumption function (2marks)
- ii) Compute the tax multiplier and autonomous spending. (6marks)
- iii) What level of Government spending is needed to achieve an income of 2000? (2 marks)

b) Briefly explain the theory of liquidity preference and explain why an increase in the supply of money lowers the interest rate. (10marks)

QUESTION THREE

- a). Using well labelled diagrams, explain the effect of currency appreciation and depreciation on demand for and supply of currency. (10marks)
- b) Define foreign trade multiplier and state its policy implications from the view point of underdeveloped economy. (10 marks)

QUESTION FOUR

- a). Explain any five factors that determine the economic growth of a country (10marks)
- b) Briefly explain short term policies to cure Balance of payments deficits. (10mark)

QUESTION FIVE

- a) According to Mundell Fleming model, when the exchange rates are fixed and capital is perfectly mobile will fiscal and monetary policy be more successful. Explain (10 Marks)
- b) What are the advantages of floating exchange rates and fixed exchange rates? (10 marks)

