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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2019/2020 ACADEMIC YEAR TWO**

**SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: ECO 211**

**COURSE TITLE: INTERMEDIATE MACROECONOMICS**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 18/12/2020 TIME: 09.00-11.00 AM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) questions**
* **Use sketch diagrams to illustrate your answer whenever necessary**
* **Do not carry mobile phones or any other written materials in examination room**
* **Do not write on this paper**

**This paper consists of THREE (3) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Consider an economy described by the following equations

C= 1000+0.75Yd

I=100-100r

G=100

T=0.2Y

L1=Y

L2=1-1000r

Ms=2751

1. Calculate the equilibrium Y and r  **[8 marks]**
2. Represent your result in (i) above in a diagram **[4 marks]**
3. In the classical theory of demand for money, demand for money balances begins with the equation of exchange. Develop the equation for real demand for money balances. **[6 marks]**
4. If C=10+0.75Yd, determine the corresponding saving function  **[4 marks]**
5. If C=20+0.8Y,Qe=1200 and Qf=1000
6. What type of gap is this **[2 marks]**
7. Calculate the change in government spending needed to close this gap **[6 marks]**

**QUESTION TWO**

1. By use of a diagram, show how employment is determined in classical model  **[8 marks]**
2. Explain the assumption of classical model **[6 marks]**
3. Discuss Keynes criticism of classical model **[6 marks]**

**QUESTION THREE**

1. Graphically and verbally, discuss the relationship between interest rate and bond prices under the Keynesian liquidity preference theory of demand for money balance **[8 marks]**
2. Discuss four problems associated with fiscal policy **[8 marks]**
3. Explain the profit theory of investment **[4 marks]**

**QUESTION FOUR**

1. C=100+0.8Yd

I=50

G=T=75 and both G and T increase by 10, calculate and comment about the value of the multiplier **[5 marks]**

1. Using a diagram, explain how monetary policy is used to close a recessionary gap **[7 marks]**
2. In the Keynesian model, real wage is constant and not equal to equilibrium wage. Discuss **[8 marks]**

**QUESTION FIVE**

1. Consider an economy with the following equations:

C=25+0.8Yd

T=15+0.4Y

I=20

G=26

R=25

X=17M=2+0.1Y

Calculate

1. Ye,
2. Net tax
3. Yd **[10 marks]**
4. Graphically compare Keynesian consumption function with that of classical school of thought **[5 marks]**
5. Prove that MPS+MPC=1 **[5 marks]**