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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2020/2021 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: 03/04/2021 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. Explain the four major goals of macroeconomics **(8 marks)**
2. b) i) By use of a diagram, show how employment is determined in classical model **(8 marks)**

**i)**Explain the assumption of classical model **(6 marks)**

1. If C=10+0.75Yd, determine the corresponding saving function **(2 marks)**
2. If C=20+0.8Y, Qe=1200 and Qf=1000
3. What type of gap is this **(2marks)**
4. Calculate the change in government spending needed to close this gap **(4 marks)**

 **QUESTION TWO**

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. Discuss four problems associated with fiscal policy **(8 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 balances **(8 marks)**
2. 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  **(8 marks)**
3. Discuss Keynes criticism of classical model **(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)**