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(Knowledge for Development)

**KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS**

2021/2022 ACADEMIC YEAR

**THIRD YEAR SECOND SEMESTER
MAIN EXAMINATION**

FOR THE DEGREE OF BACHELOR OF EDUCATION

COURSE CODE: ECO205

COURSE TITLE: INTERMEDIATE MACROECONOMICS

DATE: 2ND SEPTEMBER, 2022

TIME: 9.00AM - 11.00AM

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question **one** carries **30** marks and each of the other two questions carry **20** marks each.

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 6 Printed Pages. Please Turn Over.

QUESTION ONE

a) Use a well labelled diagram to explain the equilibrium situation in the money market.

(4Marks)

b) Define the following terms giving an illustration in each case.

(6Marks)

i) Endogenous variables

ii) Exogenous variables

iii) Economic model

c) Discuss five goals that the government achieves using the fiscal policy. (10Marks) d) Explain five functions of the Central Bank of Kenya.

(5Marks)

e) Discuss five criticisms against inflation targeting to the economy. (5 Marks)

QUESTION TWO

a) Suppose that everyone in the economy at every interest rate decided to save more, would this lead to unemployment? In other words, would the total output change? (6 Marks)

b) Explain how a balance of payment deficit would be rectified under flexible exchange rate regime. (6 Marks)

c) Discuss the determinants of labour demand in your country. (8 Marks)

QUESTION THREE

a) Explain the three Keynesian motives of holding money. (6marks)

b) Given the Keynesian National Income model

$Y = C + I_0 + G_0$, where $C = a + bY^d$, $Y^d = Y - T$. Derive the equilibrium conditions for Y and

C in terms of a and b. (8 Marks)

c) i) Define the IS curve. (2 Marks)

ii) Discuss the effect of an increase in taxes on the IS curve. (4 Marks)

QUESTION FOUR

- a) Unemployment has been a challenge for many developing economies. What policy advice would you give to a government trying to reduce unemployment? (6 Marks)
- b) Under fixed or pegged exchange rates all exchange transactions take place at an exchange rate that is determined by the monetary authority. Discuss the merits for fixed exchange rates. (6 Marks)
- c) Discuss four types of inflation classified on the basis of speed or intensity. (8 Marks)

QUESTION FIVE

The following equations describe an economy.

$$Y = C + I + G$$

$$(M/P)^d = Y - 20r$$

$$C = 120 + 0.5(Y - T)$$

$$M = 600$$

$$I = 100 - 10r$$

$$P = 2$$

$$G = 50$$

$$T = 40$$

- a) Identify each of the variables and briefly describe their meanings. (6 Marks)
- b) From the above list, use the relevant equations to derive the IS curve. Graph the IS curve on an appropriately labelled graph. (5 Marks)
- c) From the above list, use the relevant set of equations to derive the LM curve. Graph the LM curve on the same graph you used in part (ii) above. (4 Marks)
- d) Determine the equilibrium level of income and equilibrium interest rate in this economy.

(5 Marks)