



# MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FOURTH YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR  
BACHELOR OF SCIENCE (AGRI-BUSINESS MANAGEMENT AND TRADE)

AGB 411: MACROECONOMICS THEORY II

DATE: 25/3/2021

TIME: 2.00-4.00 PM

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## INSTRUCTIONS:

- i) Answer question ONE and any other TWO questions. Question one carries 30 marks and the other questions carry 20 marks each.
- ii) Do not write on the question paper

## QUESTION ONE (30 MARKS)

- a) A country's national income model is expressed as follows:

$$Y = C + I + G$$

$$C = C_0 + C_1Y$$

$$I = I_0$$

$$G = G_0$$

### Required:

1. Solve the equilibrium values of  $\bar{Y}$  and  $\bar{C}$  (4 marks)
  2. Derive:
    - i. Government expenditure multiplier. (2 marks)
    - ii. Investment multiplier. (2 marks)
    - iii. Autonomous consumption multiplier. (2 marks)
  - b) Distinguish between the following set of terms: - (8 marks)
    - i. Discretionary stabilization and Automatic stabilization.
    - ii. Monetary and fiscal policy
    - iii. Flexible exchange rate and fixed exchange rate.
    - iv. Deficit and surplus BOP)
  - c) Explain the cost of inflation to an economy? (8 marks)
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- d) Distinguish between relative income hypothesis and lifecycle income hypothesis (4 marks)

**QUESTION TWO (20 MARKS)**

- a) With the aid of well labelled diagrams, describe how a country using a fixed exchange rate system can eliminate a deficit in the balance of payment. (8 marks)
- b) Explain any four monetary policy corrects inflation in the economy. (8 marks)
- c) Explain the difference between the devaluation of a currency and the depreciation of a currency. (4 marks)

**QUESTION THREE (20 MARKS)**

- a) Explain the J - curve phenomena (6 marks)
- b) Clearly distinguish between commodity and money markets. (4 marks)
- c) Enumerate the key contributions of the Keynesians economics and the main recommendations advanced by the classics economists on employment. (10 marks)

**QUESTION FOUR (20 MARKS)**

- a) Discuss any **five** macroeconomic policy objectives advanced by Kenyan government. (10 marks)
- b) Explain any **five** likely effects of expansionary monetary policy on the Kenyan economy. (10 marks)

**QUESTION FIVE (20 MARKS)**

- a) On what grounds did Keynesian criticize Says Law? (10 marks)
- b) Write short notes on the following economic concepts:
- i. Full employment. (4 marks)
  - ii. Speculative demand for money. (4 marks)
  - iii. Accelerator principle. (2 marks)