



MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

FOURTHYEAR FIRSTSEMESTER

**SCHOOL OF BUSINESS & ECONOMICS
BACHELOR OF SCIENCE IN ECONOMICS
BACHELOR OF SCIENCE IN FINANCIAL
ECONOMICS**

COURSE CODE: ECS 4107

**COURSE TITLE:MACROECONOMIC POLICY
ANALYSIS**

DATE:

TIME:

INSTRUCTIONS TO CANDIDATES

1. Answer Question **ONE** and any other **THREE** questions

*This paper consists of **three** printed pages. Please turn over.*

QUESTION ONE

- (a) Suppose that GDP is Shillings 40 billion below its potential level. It is expected that next period GDP will be 20 billion below potential, and that two periods from now it will be back at its potential level. You are told that the multiplier for government spending is 2 and that the effects of the increased government spending are immediate. What policy actions can be taken to put GDP back on target each period? **7 marks**
- (b) Using a relevant macro-model, provide a policy advice for a country experiencing current account deficits. **10 marks**
- (c) Following the oil price shocks of the 1970s, Keynesians concede that supply shocks can cause recessions, but it is not the main source of recessions. Discuss. **8 marks**

QUESTION TWO

- (a) Discuss the difference between unemployment in the classical and Keynesian model. **7marks**
- (b) Why would firms not reduce the wage to accommodate unemployed labor, if the real wage is too high in a recession? **8 marks**

QUESTION THREE

- (a) 'In the 1970's and early 1980's it seemed that Keynesian policy did not work, sparking economic policy debates.' Discuss. **10 marks**
- (b) Explain the macroeconomic policy analysis convergence point of the Classical and Keynesians. **5marks**

QUESTION FOUR

- (a) 'We can have the GNP path we want equally well with a tight fiscal policy and an easier monetary policy, or the reverse, within fairly broad limits. The real basis for choice lies in many subsidiary targets, besides real GNP and inflation that are differentially affected by fiscal and monetary policies.'

(i) What are some of the subsidiary targets referred to in the quote?
3 marks

(ii) How would they be affected by alternative policy combinations?
6marks

(b) The economy is at full employment. Now the government wants to change the composition of demand towards investment and away from consumption without, however, allowing aggregate demand to go beyond full employment. What is the required policy mix? Use the IS-LM diagram to show your policy proposal.
6 marks

QUESTION FIVE

(a) Demonstrate that money supply is neutral in the long-run, but not in the short-run in the Keynesian model.
4 marks

(b) Discuss the effects of lower taxes in the Keynesian model on the general equilibrium.
4 marks

(c) Explain the role of foreign reserves in the balance of payment accounts.
2marks

(d) Why would countries having trade surpluses operate on foreign debt?
2 marks

(e) Explain the effect of transfer payments on current account.
3 marks