AFRICA UNIVERSITY
A United Methodist-Related Institution

"Investing in Africa's Future"

COLLEGE OF BUSINESS, PEACE, LEADERSHIP& GOVERNANCE

COURSE TITLE: **MEC 204-INTERMEDIATE MACROECONOMICS**

SEMESTER 2: **FINAL EXAMINATION MAY 2019**

LECTURER: **MR. L. NGENDAKUMANA**

TIME: **3 HOURS**

INSTRUCTIONS

Answer **any five [5] questions.**
Total possible mark is **100.**

Start **each** question on a new page in your answer booklet.

The marks allocated to **each** question are shown at the end of the section.

Show all your workings.

Credit will be awarded for logical, systematic and neat presentations.

Question One

a. Compare and contrast the classical and basic Keynesian approaches to aggregate supply owing to their respective assumptions. Use appropriate graphs of production, labor market and the aggregate supply curves in your arguments **[15]**

b. Which of the above is more realistic in today's economic world? Provide solid justification to support your arguments **[5]**

Question Two

i. Aggregate supply – aggregate demand equilibrium framework is an important framework in Macroeconomics. Use two concrete examples to show the importance of such framework **[6]**

ii. Derive the equilibrium price level and output for any economy with the following characteristics:

$C = 10 - 5P$ (Consumption)

$I = 20$ (Investment)

$G = 15$ (Government expenditure)

$Q_S = 5 + P$ (Aggregate supply)

[3]

b. What happens to production and prices if government expenditure decreases to 10 **[3]**

iii. Using diagrams discuss what happens to the equilibrium price and output under the two Keynesian cases, when an earthquake destroys half the capital stock of the country **[8]**

Question Three

a. Explain the role investment spending in promoting economic growth and briefly explain the causes of decline in foreign direct investment in Africa **[10]**

b. Distinguish between contractionary monetary and fiscal policies and explain the various tools used when conducting such policies. **[10]**

Question Four

a. After defining the concept of budget deficit suggest different ways in which the government can finance those expenditures. **[8]**

b. What are economic implications of such policies in (a)? **[4]**

c. Explain how government expenditure can be used to foster economic growth **[8]**

Question Five

Briefly explain the following concepts used in Macroeconomics:

a. Aggregate demand **[3]**
b. Balance of payment **[3]**
c. Economic growth **[3]**
d. Investing spending **[3]**
e. Floating exchange rate **[3]**
f. Capital controls **[3]**
g. Aggregate supply **[2]**

Question Six

i. Use the concepts of total planned expenditures and autonomous planned spending to show situations where an economy is:

a. In equilibrium **[3]**

b. Out of equilibrium **[3]**

c. What are the economic implications of the above situations in (a) and (b) **[3]**

ii. a. State and define the various types of investment **[6]**
b. Outline the shortcomings in the measurement of investment spending **[5]**

End of paper