



"Investing in Africa's Future"

COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES

NMEC204 INTERMEDIATE MACROECONOMICS

SECOND SEMESTER EXAMINATIONS

APRIL 2026

LECTURER: DR T MASESE

TIME: 3 HOURS

INSTRUCTIONS

ANSWER ANY **FOUR QUESTIONS** FROM THIS PAPER

MARKS ALLOTTED TO EACH QUESTION ARE SHOWN

CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR PRESENTATION

Question 1

- (a) Explain the distinction between the short run, medium run, and long run in macroeconomic analysis **(5 marks)**
- (b) Using the aggregate supply–aggregate demand model, explain how output and prices are determined **(5 marks)**
- (c) Suppose a country is represented by the following equations: $C = 400 + 0.5 Y_d$, $I = 200$, $G = 100$, $T = 150$
 - i. Calculate the output at equilibrium point **(3 marks)**
 - ii. Suppose investments is increased by 70, what is the new equilibrium of C , I , G and Y **(3 marks)**
 - iii. Calculate the level of consumption, Y_d , I , G if $Y = 1200$ **(3 marks)**
 - iv. Suppose Y Increase from 1,200 to 1,300, what happens to the level of Y_d , C , I , G **(3 marks)**
 - v. Calculate the marginal propensity to consume and marginal propensity to save when Y is 1200 and 1300 **(3 marks)**

Question 2

- a) Explain how changes in fiscal policy affect the position of the IS curve **(10 marks)**
- b) Explain wage-setting and price-setting behaviour in the labour market **(5 marks)**
- c) Analyse how these determine the natural rate of unemployment **(10 marks)**

Question 3

- (a) Derive the goods market equilibrium condition **(5 marks)**
- (b) Illustrate and explain each of the following situations with IS/LM curves
 - i. An increase in G with money supply held constant by the Central Bank **(5 marks)**
 - ii. An increase in G with CB accommodation designed to hold interest rate constant **(5 marks)**
 - iii. The Minister of Finance cuts G and increases T while the CB Governor expands M^s **(5 marks)**
 - iv. The Minister of Finance increases G and hold T constant while the Governor of CB holds M^s constant during a period of inflation **(5 marks)**

Question 4

- (a) Explain the determinants of demand for money and the role of the central bank in money supply **(15 marks)**
- (b) Analyse how monetary policy affects interest rates and output in the short run **(10 marks)**

Question 5

- a. Using the IS–LM framework analyse the effects of an increase in government expenditure and discuss the extent to which crowding out may occur **(10 marks)**
- b. Suppose that an individual's yearly income is 80,000 and the person's money demand is given by:
 $M^d = Y (0.25 - i)$
where M^d is money demand, Y is income and i is money interest rates.
 - a. Calculate the person's demand for money when the interest rate is 4% and 8 % **(3 marks)**
 - b. Explain how the interest rate affects money demand **(3 marks)**

- c. Given that the interest rate is 4% and 8 % respectively, what happens to the person's demand for money if his yearly income is reduced to 50,000 **(2 marks)**
- d. Analyze how income and interest rates respectively affect money demand **(3 marks)**
- e. Suppose that money's demand is denoted as $M = Y (0.25 - i)$ and the supply of money is \$ 20, find the equilibrium interest rate **(2 marks)**
- f. If the central bank wants to increase i by 10%, at what level should it set the level of money supply? **(2 marks)**

Question 6

- (a) Explain the expectations-augmented Phillips Curve **(10 marks)**
- (b) Discuss its implications for inflation and unemployment trade-offs **(15 marks)**

END OF EXAMINATION