



**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: END OF SEMESTER EXAMINATION APRIL 2018

LECTURER: MR. L. NGENDAKUMANA

TIME: 3 HOURS

INSTRUCTIONS

Answer **all** questions in section A and any other two [2] questions in section B.

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.

SECTION A

Question One

Briefly explain the following concepts used in Macroeconomics:

- a. Real balance effect [3]
- b. Crowding out effect [3]
- c. Capital controls [3]
- d. Stock variables [3]
- e. Real variables [3]
- f. Marginal leakage rate [3]
- g. Total planned expenditure [2]

Question Two

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

$$C = 100 - 5P \quad (\text{Consumption})$$

$$I = 200I \quad (\text{Investment})$$

$$G = 150 \quad (\text{Government expenditure})$$

$$Q_s = 30 + P \quad (\text{Aggregate supply}) \quad [4]$$

b. What happens to production and prices if government expenditure increases to 250 [3]

c. Explain what is meant by an expenditure multiplier? [3]

d. Keynesian theory of consumption is based on a number of assumptions. State and explain them and use numerical example when needed. [10]

Question Three

a. Outline and explain the various types capital controls, their importance, advantages and disadvantages. [8]

b. With a particular reference on an open Economy, explain the effectiveness of macroeconomic policies under Flexible Exchange Rates [12]

SECTION B

Question Four

- a. Distinguish between autonomous consumption and induced consumption using a numerical and graphical illustrations in your explanations [4]
- b. Distinguish between flow and stock magnitude and give one example in each case [4]
- c. Why are imports considered to be a leakage in any given economy? [2]
- d. How does a shift in aggregate demand affect prices, real wages and output in the classical and basic Keynesian approaches? Define the classical unemployment and explain how it arises in a given economy [10]

Question Five

- a. Explain the role investment spending in promoting economic growth and briefly explain the causes of decline in foreign direct investment in Africa [12]
- b. Distinguish between expansionary and contractionary monetary policies and explain the various tools used when conducting such policies as well as how they are implemented. [8]

Question Six

- a. Outline and explain the different measurements of investment spending and state their shortcomings [12]
- b. Describe the different types of government expenditures. What are the different ways in which the government can finance those expenditures and what are their economic implications? [8]

End of paper