



# **MURANG'A UNIVERSITY OF TECHNOLOGY**

## **SCHOOL OF BUSINESS & ECONOMICS**

DEPARTMENT OF COMMERCE

UNIVERSITY POST GRADUATE EXAMINATION

2018/2019 ACADEMIC YEAR

**FIRSTYEAR ONE SEMESTER EXAMINATION FOR, MSC IN AGRICULTURE  
ECONOMICS**

AEC 603- MACRO-ECONOMICS

DURATION: 3 HOURS

DATE:

TIME:

**Instructions to candidates:**

1. Answer any FOUR questions
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.

**QUESTION ONE (25 MARKS)**

- a) Discuss the effects of monetary and fiscal policy on output and interest rate. (5marks)
- b) Discuss the characteristics of macro-economic equilibrium in closed economy using IS-LM Model. (5marks)
- c) Explain a link between exchange rate and balance of payments. How does efficiency of monetary and fiscal policy depend on monetary regime? (5marks)
- d) What factors are likely to worsen the current account and capital account of a country's balance of payments? (5marks)
- e) Name two policies which government might use to control inflation and explain how each works. (5marks)

**QUESTION TWO (25 MARKS)**

According to Ricardian view, the level of government debt should be of little or no importance for macro-economic performance. The recent European experience suggests otherwise. Your task is to discuss the following:

- a) Why do governments tend to run the deficits and accumulate debt? (15marks)
- b) Explain how budget deficits affect debt dynamics and why excessive government debt may quickly become a big problem. (5marks)
- c) What advice would you give to a heavily indebted government? (5marks)

**QUESTION THREE (25MARKS)**

- (a) Kenya as a nest of the world is working towards implementing the UN declaration on Sustainable Development Goals(SDGs).in the second country integrated Development Plan (2018-2022).outline the SDGs and discuss the key strategies that could be formulated for the agricultural sector.(15marks)
- (b) Discuss the meaning and computation of EDP- an economy. Explain its major difference with ENP. (10marks)

**QUESTION FOUR (25 MARKS)**

You are given data on the following variables:

- Government spending
- Planned investment
- Net exports
- Autonomous taxes
- Income tax rate
- Marginal propensity to consume

- a) Consumption (c ) is 600 when income (Y) is equal to 1,500.solve for autonomous consumption (5marks)
- b) Solve the equilibrium level of output in the following two scenarios:
  - i. There is an income tax=0.1
  - ii. There is no income in the economy.Denote these two variables by  $Y_w^*$  and  $Y_{wo}^*$  respectively. (5marks)
- c) In the economy with an income tax of 10%,what is the budget balance of the government?(5marks)
- d) Solve for the change in net exports that would bring the equilibrium output level in the economy

with the income tax to the level  $Y_{wo}^*$  that you found in (b). Specify both the magnitude of the change and whether it is an increase or decrease. What would be the new level of net exports after this change? (5marks)

- e) Suppose that we would like to achieve the same goal as in part (d) by changing the level of autonomous taxes changes instead. Find the necessary magnitude of the change and specify whether autonomous taxes would have to increase or decrease. What would be the new level of autonomous taxes that accomplish the goal. (10marks)

#### **QUESTION FIVE (25 MARKS)**

There are certain challenges related to an escalating national debt burden. Discuss your understanding of the national debt burden in particular reference to Kenya since independence and propose any five policy measures to address the challenge.