



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS JANUARY - APRIL 2025 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: ECON 201

COURSE TITLE: INTERMEDIATE MACROECONOMICS

DATE: 5 APRIL 2025

TIME: 8.00 AM – 10.00 AM

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **TWO** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: *All exam rooms are under CCTV surveillance during the examination period.*

SECTION A: COMPULSORY

Question One

- a) Many countries around the world operate with a deficit or surplus balance of payment (BOP). The method by which an economy goes about eliminating a deficit or surplus in the balance of payment depends entirely on whether their exchange rate system is fixed or flexible. Using the appropriate graphs and explanations, show how an economy using a **fixed** exchange rate would solve their deficit BOP and surplus BOP. **[10 marks]**
- b) One of the economist to provide a consumer-income relationship is J.M. Keynes. He stated that consumption expenditure is grounded on four principles. Elaborate on these principles of aggregate consumption **[8 marks]**
- c) In Kenya, economists have suggested a number of measures to resolve national economic problems which would help achieve economic stabilization, one of these measures is the use of discretionary policies. Describe these discretionary policies used in the Kenyan economy **[8 marks]**
- d) Using an example, compare and contrast between devaluation and revaluation **[4 marks]**

SECTION B: ANSWER ANY TWO QUESTIONS

Question Two

- a) Governments utilize various instruments in dealing with macroeconomics issues like fiscal policies. Discuss how fiscal policies are used to manage such issues. **[10 marks]**
- b) Trade across different countries demands the conversion currencies to local currency which takes place in foreign exchange market. The exchange can be either fixed or flexible. Using a graph, explain and illustrate a flexible exchange rate system. **10 marks]**

Question three

- a) James Duesenberry proposed an alternative theory called the relative income hypothesis. Expound on this theory giving its assumptions **[10 marks]**
- b) Milton Friedman an economist for Chicago school led a group of monetarist to provide an alternative vie to macroeconomic solutions to national problems known as the monetarist view. Describe this monetarist view. **[10 marks]**

Question Four

- a) A French scholar by name of J.B. Say, posit that each supply creates its own demand. Using a diagram, elaborate on this statement **[10 marks]**
- b) Using a graph illustrating the equilibrium interest rate and equilibrium savings and investment show the impact of an increase in savings on the equilibrium interest rate **[10 marks]**

Question five

- a) Unemployment is one of the major issues in which various economists have tried to provide a solution to in order to maximize national productivity. As a macroeconomic expert, suggest the various ways you would advise a country to deal with unemployment. **[10 marks]**
- b) Keynes divided the demand for money into three separate motives namely: transactionary, precautionary and speculative motives. Expound on these three motives using graphs where appropriate **[10 marks]**