

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF MASTER OF SCIENCE IN
AGRICULTURAL ECONOMICS**

AGEC 802: MACROECONOMICS THEORY

STREAMS: MSC. AGRICULTURAL ECONOMICS

TIME: 2 HOURS

DAY/DATE: TUESDAY 07/08/2018

2.30 P.M. – 4.30 P.M.

INSTRUCTIONS:

- Answer questions **ONE** and any other **THREE**.

- (a) Explain the effects of budget deficit on interest rates. (6 marks)
 - (b) With the aid of a diagram show the effect of introduction of taxation, government expenditure and foreign sector to the circular flow of income. (6 marks)
 - (c) Define the following (i) Nominal GDP
(ii) Real GDP
(iii) GDP deflator (6 marks)
 - (d) Explain how expansionary fiscal policy can cause crowding out. (6 marks)
- (a) Explain the limitations of economic models
 - (b) Discuss the structure of the loanable funds model
- (a) Explain the effect of monetary policy with flexible exchange rates and mobile capita.
 - (b) Discuss the Friedman's approach of the consumption function with reference to cyclical movement. (6 marks)
- (a) Kenya is experiencing financial shortfalls in financing its programs. Based on the fiscal policies of the country, what is not happening or working?

According to
situation?

you, what are some of the measures to be taken to contain the

(6 marks)

(b) Poor countries have a low capita-to-labour ratio, while rich countries have a high capital-to labour ratio. Explain what this model imply about relative wages and interest rates (assume the same level of technology in both countries) in rich and poor countries?

5. (a) Discuss the main limitations labelled against Real Business Cycle (RBC) theory. (6 marks)

(b) Discuss the concept of “Consumption smoothing.” the extent to which empirical evidence supports its existence in the context of developing countries; and how liquidity constraints may give rise to “excess sensitivity” of consumption. (6 marks)

6. (a) With the illustration of diagrams, discuss the effect of expansionary fiscal policy on the aggregate demand. (6 marks)

(b) Explain the effect of monetary and fiscal policies on the classical aggregate supply. (12 marks)
