



**BSc in Export Agriculture**  
**Third Year First Semester Examination – July/ August 2019**

**Macroeconomics (EAG 332-2)**  
**Section II– Essay Questions**

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**Instructions:**

Answer all questions in the given booklet.

No. of questions : Two (02)

No. of pages : Two (02)

Time : One (01) hour

Total marks allocated : 50%

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01.

(I) Define the followings;

- a) Actual Expenditure
- b) Planned Expenditure

(05 marks x 02 = 10 marks)

(II) Derive an equation for Planned Expenditure. Identify each term in the equation. Graphically show the Planned Expenditure function.

(10 marks)

(III) What is meant by “Keynesian Cross”?

(10 marks)

(IV) Briefly explain the following using graphical illustrations where necessary.

- a) The adjustment to the equilibrium in the Keynesian Cross.
- b) An increase in government purchases in Keynesian Cross

(10 marks x 02 = 20 marks)

(V) What is meant by;

- a) IS Curve
- b) LM Curve

(05 marks x 02 = 10 marks)

(VI) Graphically Derive;

- a) the IS Curve

(15 marks)

b) the LM Curve

(10 marks)

(VII) Briefly explain the IS-LM model.

(15 marks)

02. The key macroeconomic difference between open and closed economies is that, in an open economy, a country's spending in any given year need not equal its output of goods and services

(I) What is meant by;

- a) A small open economy
- b) World interest rate
- c) Perfect capital mobility
- d) Real exchange rate

(05 marks x 04 = 20 marks)

(II) Using national income accounts identity, derive an equation for net capital outflow and briefly explain the concept of international flow of goods and capital.

(10 marks)

(III) Briefly explain how the following policy changes influence the trade balance  
Using graphical illustrations where necessary;

- a) A Fiscal Expansion at Home in a Small Open Economy
- b) A Fiscal Expansion Abroad in a Small Open Economy
- c) A Shift in the Investment Schedule in a Small Open Economy

(10 marks x 03 = 30 marks)

(IV) Briefly explain how the following policies/ policy changes influence real exchange rate using graphical illustrations where necessary;

- a) Fiscal policy at home
- b) Fiscal policy abroad
- c) Shift in the investment demand
- d) The impact of protectionist trade policies

(10 marks x 04 = 40 marks)

**[End of the Section II]**