MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

SECOND YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF EDUCATION

BACHELOR OF ECONOMICS

BACHELOR OF COMMERCE

BACHELOR OF ARTS

EET 201: MACROECONOMICS THEORY II

DATE: 3/12/2020   **TIME: 8:30 – 10:30 AM**

INSTRUCTIONS:

1. Answer Question **ONE** and any other **TWO** questions

2. **Do not** write on the question paper.

QUESTION ONE (COMPULSORY) (30 MARKS)

a)   Critically examine the validity of the following statements.   (10 marks)

    i)   Labor demand is a derived demand

    ii)   Autonomous saving and autonomous investment are the same.

    iii)   Increase in capital stock shifts long run aggregate supply to the right.

    iv)   During the periods of high inflation the foreign prices of domestic goods increases and hence increase in output.

    v)   BP curve shows various combinations of income and interest rate which equilibrate commodity markets.

b)   The labour supply curve is probably backward-bending. Discuss.   (6 marks)

c)   Discuss the effect on expansionary fiscal policy on IS- LM model.   (6 marks)

d)   Monetarist macroeconomics was more about the importance of various factors in describing how the macroeconomy worked.

    i)   List any four monetarist economists that you know   (2 marks)

ii)   Discuss the views of monetarist macroeconomics   (6 marks)

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QUESTION TWO (20 MARKS)

a)   Use the short run aggregate Supply curve and Okun's law to derive an expression for the Phillips curve in terms of cyclical unemployment.   (6 marks)

b)   Using well labelled diagrams explain how a balance of payment deficit would be rectified under flexible exchange rate regime.   (6 marks)

c)   Discuss the determinants of labour demand in your country.   (8 marks)

QUESTION THREE (20 MARKS)

a)   Using liquidity preference theory, derive and explain LM curve.   (6 marks)

b)   Discuss the causes and solutions to BOP dis-equilibrium in your country.   (8 marks)

c)   Distinguish between classical view and Keynesian view of aggregate supply.   (6 marks)

QUESTION FOUR (20 MARKS)

a)   Unemployment has been a challenge for many developing economies. What policy advice would you give to a government trying to reduce unemployment?   (8 marks)

b)   Under fixed or pegged exchange rates all exchange transactions take place at an exchange rate that is determined by the monetary authority. Discuss the merits for fixed exchange rates.   (6 marks)

c)   Distinguish absolute income hypothesis and relative income hypothesis.   (6 marks)

QUESTION FIVE (20 MARKS)

a)   Aggregate demand curve is downward sloping. Critically discuss.   (8 marks)

b)   Planned consumption expenditure is largely determined by level of other things. Discuss the determinants of propensity to consume.   (8 marks)

c)   Discuss the components of BOP.   (4 marks)