MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

APRIL SESSION EXAMINATION FOR BACHELOR OF EDUCATION

EET 201: MACROECONOMIC THEORY II

DATE: 23/7/2021   **TIME: 8.30-10.30 AM**

INSTRUCTIONS:

    (i)   **Answer question one (COMPULSORY) and any other two questions**

    (ii)   **Do not write on the question paper**

    (iii)   **Show your workings clearly**

QUESTION ONE (COMPULSORY) (30 MARKS)

a)   Distinguish between the following pairs of concepts as used in macroeconomics:

    i.   Labour demand and labour supply   (2 marks)

    ii.   Full employment and unemployment   (2 marks)

    iii.   Demand side and supply side of the economy   (2 marks)

    iv.   Real theory of interest and monetary theory of interest   (2 marks)

b)   Using relevant diagrams discuss the effect of an expansionary monetary policy on the IS- LM model.   (8 marks)

c)   Discuss the views of monetarist macroeconomics and explain how they differ from the Keynesians views   (7 marks)

d)   Using well labelled diagrams explain how a balance of payment deficit would be rectified under a fixed exchange rate regime.   (7 marks)

QUESTION TWO (20 MARKS)

a) With the aid of well labelled diagrams, distinguish between the permanent income hypothesis and the lifecycle income hypothesis. In your view, which of the two theories is more applicable in developing countries   (10 marks)

b) The Covid-19 pandemic has led to massive job losses which has adversely affected the livelihoods of many households. Using the classical model illustrate and explain the effect of this decrease in labour demand on the variables in the model   (10 marks)

QUESTION THREE (20 MARKS)

a) Many developing countries have experienced worsening current account over years. Suppose that you are appointed to advise the government on how to remedy the situation, explain five policies that you would propose for implementation.   (10 marks)

b) Explain and illustrate how a decrease in transactions demand for money affects the variables in the basic classical model   (10 marks)

QUESTION FOUR (20 MARKS)

a) Unemployment has been a challenge for many developing economies. Explain five policies that you would advise governments in these countries to undertake in order to reduce unemployment.   (10 marks)

b) Using relevant examples critically examine the relative income hypothesis   (10 marks)

QUESTION FIVE (20 MARKS)

a) What is devaluation? Under what four conditions would devaluation improve the balance of payment position in an economy?   (10 marks)

b) The Kenyan economy has experienced persistent rise in the price levels of commodities over the past years. What five measures can the government undertake in order to solve this macroeconomic problem?   (10 marks)