MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM MANAGEMENT

DEPARTMENT OF ECONOMICS

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR EDUCATION ARTS

EET 201: MACROECONOMICS THEORY II

DATE: **TIME:**

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 whether the following statements are True or False.   (5 marks)

   i) Monetarists argue that aggregate demand is the main determinant of output and can only be altered by authorities.
   ii) Expansionary fiscal policy leads to liquidity trap.
   iii) Equilibrium in labor market is achieved when value of marginal product of labor is equal to labor supply.
   iv) BP equilibrium is achieved when IS curve intersects with LM curve.
   v) Tobin's q theory of investment argues that net investment is determined by marginal product of capital and real interest rate.

b) Using relevant diagram and examples explain the effect of expansionary monetary policy on the three ranges of LM function.   (6 marks)

c) Friedman did not believe that the Keynesian view that money had little or no macroeconomic impact and so he set out to see whether this was the case.
   i. List any four monetarist macroeconomists that you know.   (2 marks)
   ii. Explain any five views of monetarist macroeconomics. What makes their arguments different from Keynesian views?   (6 marks)

d) Critically distinguish between relative income hypothesis and life cycle income hypothesis. Use diagrams where necessary.   (6 marks)

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e) Explain factors that render fiscal policy in developing nations ineffective.   (5 marks)

QUESTION TWO (20 MARKS)

a) Using Keynesian Cross and investment function explain how IS curve is derived. Use relevant diagrams and examples.   (8 marks)

b) Multiple exchange rate system is a system under which a country adopts different rate of exchange for import and export of different commodities. Explain why it would be advisable for any economy to adopt rate system.   (6 marks)

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

QUESTION THREE (20 MARKS)

a) Comrades' autonomous consumption expenditure is positive when income level is zero.. Critically validate this statement.   (4 marks)

b) The number of hours a worker is willing and able to work in a specific period is considered their supply of labor. Explain six determinants of labor supply in your country.
     (6 marks)

c) Using well labelled diagrams explain how a balance of payment deficit would be rectified under fixed exchange rate regime.   (5 marks)

d) Unemployment has been a challenge for many developing economies. What policy advice would you give to a government trying to reduce unemployment?   (5 marks)

QUESTION FOUR (20 MARKS)

a) A worsening current account has been a long-term problem for many developing nations. What can contribute to this BOP disequilibrium and how might it be fixed.   (10 marks)

b) Aggregate demand curve is downward sloping. Explain any four reasons for this.
     (8 marks)

c) Explain Say's Law.   (2 marks)

QUESTION FIVE (20 MARKS)

a) Write short notes on the following macroeconomic concepts

     i.   Flexible accelerator theory of investment

    ii.   Monetary transmission mechanism

   iii.   Classical aggregate supply curve

   iv.   Backward bending labor supply curve

    v.   Short run Phillips's curve