



MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF EDUCATION (ARTS)

EET 201: MACROECONOMICS THEORY II

DATE: 17/11/2020

TIME: 2:00 – 4:00 PM

INSTRUCTIONS:

- i) Answer question ONE and any other TWO questions. Question one carries 30 marks and the other questions carry 20 marks each.
- ii) Do not write on the question paper

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Explain any three differences between the classical and Keynesian schools of economic thought. (6 marks)
- b) Explain three differences between relative and lifecycle income hypotheses. (6 marks)
- c) Discuss the relationship between investment and interest rate. (4 marks)
- d) Discuss the effects of an expansionary monetary policies when the Economy is at:
 - i) Full employment; (4 marks)
 - ii) Below full employment. (4 marks)
- e) Explain any three (3) causes of inflation in Kenya. (6 marks)

QUESTION TWO (20 MARKS)

- a) With the aid of well labelled diagrams, describe how a country using a fixed exchange rate system eliminates a deficit in the balance of payment. (8 marks)
- b) Discuss the views of Keynesian economist. (8 marks)

- c) Explain the difference between the devaluation and the depreciation of a currency. (4 marks)

QUESTION THREE (20 MARKS)

- a) In what two ways is knowledge of consumption theories helpful in the economic decision making and management? (4 marks)
- b) Explain any three determinants of interest rate (6 marks)
- c) Discuss the main macroeconomic policy objectives that any responsible government would strive to achieve. (10 marks)

QUESTION FOUR (20 MARKS)

- a) Distinguish between current account and capital account of the balance of payments. (6 marks)
- b) Differentiate between fixed and flexible exchange rate regimes (4 marks)
- c) If the money wage is fixed and individuals cannot accept wage cut, use a diagram to explain classical remedy to unemployment arising in this case. (6 marks)
- d) Discuss how equilibrium is achieved in the balance of payment (BOP)? (4 marks)

QUESTION FIVE (20 MARKS)

- a) The Kenyan economy has experienced persistent rise in the price levels of commodities over the past years. How can the government help solve this macroeconomic problem? (10 marks)
- b) In your view, why has an unemployment become an issue of concern in developing countries? (10 marks)