



MACHAKOS UNIVERSITY
University Examinations for 2022/2023
SCHOOL OF BUSINESS AND ECONOMICS
DEPARTMENT OF ECONOMICS

**END OF FIRST SEMESTER EXAMINATION FOR THE MASTER OF ARTS IN
ECONOMICS**

EET 801: ADVANCED MACROECONOMICS THEORY I

DATE:

TIME:

INSTRUCTIONS

1. Answer Question **ONE** and any other **THREE** questions
2. **Do not** write on the question paper.

QUESTION ONE (COMPULSORY)

(24 MARKS)

- a) Using relevant diagrams explain the effect of expansionary monetary policy under fixed exchange rate with imperfect capital mobility. **(5 Marks)**
- b) Critically distinguish between Keynesian and classical arguments on aggregate demand, aggregate supply and equilibrium level of output and price level. **(6 Marks)**
- c) Trace out IS curve using the four-quadrant diagram. **(4 Marks)**
- d) Present user cost model of investment. How is it similar to Tobin's q theory? **(6 Marks)**
- e) The equilibrium in goods market is characterized with the following equations;

$$y = c(y - t(y)) + i + g \quad (\text{Product Market})$$

Required: Derive and interpret the slope of the IS Curve. When is fiscal policy effective? **(3 Marks)**

QUESTION TWO

(12 MARKS)

- a) Set up summers' efficiency wage model and indicate how it differs from the basic efficiency model. **(4 Marks)**

b) Consider the following equations of an hypothetical economy

$$c=100+0.8y_d$$

$$i=20-8r$$

$$g=200$$

$$T=0.25y$$

$$(M/P)_d=y-25r$$

$$M=2000$$

$$P=20$$

Required;

Compute and interpret the values of both the monetary and fiscal policy multipliers

(8 Marks)

QUESTION THREE

(12 MARKS)

a) Elasticity approach to BOP studies the conditions under which exchange rate changes restore equilibrium in BOP by devaluing a country's currency. However, it suffers great weaknesses. Discuss. **(6 Marks)**

b) Suppose a hypothetical economy is experiencing interest rates that are too high to encourage investments, as a policy maker what would you advise the government to do? Use relevant diagrams. **(6 Marks)**

QUESTION FOUR

(12 MARKS)

a) Clearly distinguish between relative income hypothesis and life cycle income hypothesis. **(6 Marks)**

b) Briefly explain theory of interest parity. What distinguishes it from purchasing power parity theory? **(6 Marks)**

QUESTION FIVE

(12 MARKS)

a) Explain the main arguments of monetarist macroeconomists. Name any 4 influential monetarists you know. **(6 Marks)**

b) Briefly present the Shapiro-Stiglitz Model of unemployment. How is relevant to unemployment in African economies? **(6 Marks)**
