# MACHAKOS UNIVERSITY

**University Examinations for 2016/2017**

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ECONOMICS**

**SECOND YEAR SECOND SEMESTER EXAMINATION FOR DEGREE IN BACHELOR OF COMMERCE**

**EET 201: MACROECONOMIC THEORY II**

**DATE: 5/6/2017** **TIME: 2:00 – 4:00 PM**

**INSTRUCTIONS:**

**Answer Question ONE and Any Other Two Questions**

**QUESTION ONE (COMPULSORY) (30 MARKS)**

a) Distinguish the following concepts:

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 and monetary theory of interest (2 marks)

b) With an aid of well labeled diagrams distinguish between relative income hypothesis and lifecycle income hypothesis (8 marks)

c) Using well labelled diagrams, analyse the impact of a decrease in money supply in the classical model. This should be followed by a detailed explanation. (8 marks)

d) Explain the effects of monetary policy in the three ranges of LM curve. (6 marks)

**QUESTION TWO (20 MARKS)**

a) Enumerate the key contributions of the Keynesians economics and the main recommendations advanced by the classics in the management of economic of a nation (6 marks)

b) In order to understand the classical arguments in solving macroeconomic problems the classical theory of output and employment is based on four pillars. Briefly explain each of these pillars. (10 marks)

c) Explain the difference between the revaluation of a currency and the depreciation of a currency**.** (4 marks)

**QUESTION THREE (20 MARKS)**

a) Distinguish between the effects of an expansionary fiscal or monetary policies when the economy is at full employment and not at full employment (10 marks)

b) Distinguish between current account and capital account of the balance of payments. Mention the various items on both of these accounts (10 marks)

**QUESTION FOUR (20 MARKS)**

a) Distinguish between balance of payments and balance of trade (3 marks)

b) Under what conditions would devaluation improve the balance of payment position in an economy (7 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 (10 marks)

**QUESTION FIVE (20 MARKS)**

a) Using well labelled diagrams explain how a balance of payment surplus under flexible exchange rate would be rectified. (10 marks)

b) 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)