



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

SECOND YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

BACHELOR OF EDUCATION

EET 201: MACROECONOMICS THEORY II

DATE: 23/3/2021

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) With an aid of well labeled diagrams, distinguish between relative and lifecycle income hypotheses. (8 marks)
- b) Using a diagram, explain the relationship between investment and interest rate. (6 marks)
- c) Discuss the effects of contractionary monetary policies when the Economy is at
 - i. Below full employment. (5 marks)
 - ii. Full employment (5 marks)
- d) Discuss cost push and demand-pull inflation concepts. (6 marks)

QUESTION TWO (20 MARKS)

- a) With the aid of well labelled diagrams, describe how a country using a flexible exchange rate regime can correct a deficit in the balance of payment. (8 marks)
- b) Discuss the views of classical macroeconomics. (8 marks)
- c) Explain the difference between devaluation and depreciation of currency. (4 marks)

QUESTION THREE (20 MARKS)

- a) The Kenyan economy has experienced persistent rise in the price levels of commodities over the past 2 years. How can the government help solve this macroeconomic problem? (10 marks)
- b) Discuss any **five** macroeconomic policy objectives advanced by Kenyan government. (10 marks)

QUESTION FOUR (20 MARKS)

- a) Distinguish between current and capital accounts in the BOP. (6 marks)
- b) In your view, why has an unemployment become an issue of concern in Kenya? (6 marks)
- c) Discuss any four determinants of aggregate demand that you know. (8 marks)

QUESTION FIVE (20 MARKS)

- a) Explain any four determinants of investment (8 marks)
- b) Discuss factors that influence labour supply in your country. (8 marks)
- c) Distinguish between autonomous consumption and autonomous saving. (4 marks)