MACHAKOS UNIVERSITY

University Examinations for 2017/2018

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

SECOND YEAR FIRST SEMESTER EXAMINATION FOR BACHELOR OF EDUCATION

EET 201: MACRO ECONOMIC THEORY II

DATE: 5/12/2017 **TIME: 11:00 – 1:00 PM**

INSTRUCTIONS:

a) Answer Question ONE and any other TWO questions.
b) Begin answering a new question on a separate page on the booklet provided
c) Credit will be given to the clarity of argument and use of local examples.

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Explain four goals of macroeconomic policy (4 marks)

b) Name at least four factors that will cause a shift in the IS curve. (4 marks)

c) According to Keynes, there are three motives for holding money. Name them. (4 marks)

d) Explain at least four (4) factors governing the effectiveness of monetary policies in the economy. (4 marks)

e) State J.B. Say's Law and give at least three (3) Keynesian critics on this law. (4 marks)

f) Clearly explain four piguo's suggestions on how to alleviate unemployment in an economy (4 marks)

h) Explain at least three methods that would be used in the measurement of macro-economic activity (4 marks)

QUESTION TWO (20 MARKS)

a) Distinguish between the following types of consumption theories (8 marks)

i) Absolute income hypothesis

ii) Relative income hypothesis

iii) Permanent Income hypothesis

iv) Life Cycle Income hypothesis

b) Name and explain at least four different types of investments (8 marks)

c) Explain briefly how the following factors would affect consumption (4 marks)

i) Money illusion

ii) Availability of consumer credit

iii) Composition of the population

iv) Rate of interest

QUESTION THREE (20 MARKS)

a) Name and explain five (5) causes of variations in the rates of exchange. (10 marks)

b) Explain two types of exchange rate regimes or systems. (2 marks)

c) Name and explain at least four advantages of fixed exchange rates. (8 marks)

QUESTION FOUR (20 MARKS

a) Write short notes on the following pillars of classical macro economic policy; (10 marks)

i) Say's Law

ii) Quantity theory of money

iii) Wage and Price flexibility

iv) Real theory of interest

b) Name and explain three (3) demand side theories and two (2) supply side theories of Income determination (10 marks)

QUESTION FIVE (20 MARKS)

The commodity and money markets of a certain economy are given as follows:

	$Y = C + I$	*National Income*
Commodity market:	$C = 100 + 0.6Y$	*Consumption function*
	$I = 1800 - 2.5r$	*Investment function*
	$L_t = 0.2Y$	*Transactionary demand for money*
Money market:	$L_{sp} = 10 - 2r$	*Speculative demand for money*
	$Ms = 1000$	*Money supply function*

REQUIRED

(i) Derive the IS and LM equations and explain what they imply (6 marks)

(ii) Find the equilibrium income and rate of interest (4 marks)

(iii) Find the new level of national income and rate of interest if money supply is increased by 10% (5 marks)

(iv) Give reasons for changes in the level of national income and the rate of interest (5 marks)