MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

SECOND YEAR EXAMINATION FOR BACHELOR OF ARTS
BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF COMMERCE

BACHELOR OF ECONOMICS

EET 201: MACROECONOMICS THEORY II

DATE: 23/7/2019 **TIME:2:00 – 4:00 PM**

INSTRUCTIONS:

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

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Discuss causes and solutions to balance of payment disequilibrium. (10 marks)

b) Distinguish between the following macroeconomic concepts (6 marks)
   i) Autonomous investment and autonomous saving.
   ii) Fisher's quantity theory of money and Keynes' liquidity preference theory.
   iii) Balance of payment and balance of trade

c) Explain two tools used as trade barriers in developing economies. (4 marks)

d) Discuss factors that determine labour supply in Kenya. (10 marks)

QUESTION TWO (20 MARKS)

a) Distinguish between the effects of an expansionary fiscal on the three ranges of LM curve. (8 marks)

b) Discuss any three theories of consumption. (12 marks)

QUESTION THREE (20 MARKS)

a) Compare and contrast any three different macroeconomic views. (6 marks)

b) Discuss the determinants of consumption expenditure. (6 marks)

c) Using well labelled diagrams explain how a balance of payment deficit would be rectified under flexible exchange rate regime. (8 marks)

QUESTION FOUR (20 MARKS)

a) Given the following information:

Money market

Money demand: $(M/P)\,d = L(Y, r) = 5000 + 0.8Y - 1000r$

Money supply $MS/P = 8000$

Goods market

Households	$C = 3200 + 0.8Y^d$	$Y^d = Y - T$
Firms	$I = 400 - 400r$	
Government	$G = 800$	
Taxes	$T = 500$	

Where L(Y,r) represents the demand for real money balances in this economy, MS/P represents the real money supply set by the central bank. Suppose the money market is in equilibrium,

i) Derive the equation for LM curve. (5 marks)

ii) Derive the equation for IS curve. (5 marks)

iii) Compute the equilibrium values of Y (income) and r (interest rate) in this economy. (5 marks)

b) In his theory, Keynes believed that there are three motives for individuals to hold money. Discuss. (5 marks)

QUESTION FIVE (20 MARKS)

a) Discuss the factors that shift the aggregate demand curve. (10 marks)

b) Discuss effects, causes and solutions to unemployment in Kenya. (10 marks)