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;

$y = c(y - t(y)) + i + g$ (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+0.8yd
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)**

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