



MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM

MANAGEMENT

DEPARTMENT OF ECONOMICS

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR EDUCATION ARTS

EET 201: MACROECONOMICS THEORY II

DATE:

TIME:

INSTRUCTIONS:

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

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Critically examine whether the following statements are True or False. (5 marks)
 - i) Monetarists argue that aggregate demand is the main determinant of output and can only be altered by authorities.
 - ii) Expansionary fiscal policy leads to liquidity trap.
 - iii) Equilibrium in labor market is achieved when value of marginal product of labor is equal to labor supply.
 - iv) BP equilibrium is achieved when IS curve intersects with LM curve.
 - v) Tobin's q theory of investment argues that net investment is determined by marginal product of capital and real interest rate.
- b) Using relevant diagram and examples explain the effect of expansionary monetary policy on the three ranges of LM function. (6 marks)
- c) Friedman did not believe that the Keynesian view that money had little or no macroeconomic impact and so he set out to see whether this was the case.
 - i. List any four monetarist macroeconomists that you know. (2 marks)
 - ii. Explain any five views of monetarist macroeconomics. What makes their arguments different from Keynesian views? (6 marks)
- d) Critically distinguish between relative income hypothesis and life cycle income hypothesis. Use diagrams where necessary. (6 marks)

- e) Explain factors that render fiscal policy in developing nations ineffective. (5 marks)

QUESTION TWO (20 MARKS)

- a) Using Keynesian Cross and investment function explain how IS curve is derived. Use relevant diagrams and examples. (8 marks)
- b) Multiple exchange rate system is a system under which a country adopts different rate of exchange for import and export of different commodities. Explain why it would be advisable for any economy to adopt rate system. (6 marks)
- c) Use the aggregate short run Supply curve and Okun's law to derive an expression for the Phillips curve in terms of cyclical unemployment. (6 marks)

QUESTION THREE (20 MARKS)

- a) Comrades' autonomous consumption expenditure is positive when income level is zero.. Critically validate this statement. (4 marks)
- b) The number of hours a worker is willing and able to work in a specific period is considered their supply of labor. Explain six determinants of labor supply in your country. (6 marks)
- c) Using well labelled diagrams explain how a balance of payment deficit would be rectified under fixed exchange rate regime. (5 marks)
- d) Unemployment has been a challenge for many developing economies. What policy advice would you give to a government trying to reduce unemployment? (5 marks)

QUESTION FOUR (20 MARKS)

- a) A worsening current account has been a long-term problem for many developing nations. What can contribute to this BOP disequilibrium and how might it be fixed. (10 marks)
- b) Aggregate demand curve is downward sloping. Explain any four reasons for this. (8 marks)
- c) Explain Say's Law. (2 marks)

QUESTION FIVE (20 MARKS)

a) Write short notes on the following macroeconomic concepts

- i. Flexible accelerator theory of investment
- ii. Monetary transmission mechanism
- iii. Classical aggregate supply curve
- iv. Backward bending labor supply curve
- v. Short run Phillips's curve