



**UNIVERSITY OF KABIANGA**

**UNIVERSITY EXAMINATIONS**

**2017/2018 ACADEMIC YEAR**

**FOURTH YEAR SECOND SEMESTER EXAMINATION**

**FOR THE DEGREE OF  
BACHELOR OF ARTS (ECONOMICS)**

**COURSE CODE: ECO 411**

**COURSE TITLE: ADVANCED MACROECONOMICS**

**DATE: 4<sup>TH</sup> JULY, 2018**

**TIME: 2.00 P.M - 5.00 P.M.**

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**INSTRUCTIONS TO CANDIDATES**

- SEE INSIDE

THIS PAPER CONSISTS OF (4) PRINTED PAGES

PLEASE TURN OVER

**MAIN CAMPUS**

140800e

UNIVERSITY OF KABIANGA  
SCHOOL OF BUSINESS AND ECONOMICS  
ACADEMIC YEAR 2017/2018  
ECO 411: ADVANCED MACROECONOMICS  
FOURTH YEAR SECOND SEMESTER EXAMINATION  
MAIN EXAMINATION  
MAIN CAMPUS  
TIME: 3 HOURS

INSTRUCTIONS TO THE CANDIDATE:

*ANSWER QUESTION ONE AND ANY OTHER THREE QUESTIONS*

**QUESTION ONE (25Marks)**

a) Explain the meaning of the following terms as used in economics

(i)Fiscal and Monetary policy (4marks)

(ii)Exchange rate and interest rate (4marks)

(iv)Unemployment rate and Okun's law (4marks)

(b) Given the following equations for a certain economy:

$$Y = C + I + G + X \quad (\text{Income identity})$$

$$C = 100 + 0.9Y^d \quad (\text{Consumption function})$$

$$I = 200 - 500r \quad (\text{Investment function})$$

$$X = 100 - 0.12Y - 500r \quad (\text{Net export})$$

$$G = 200 \quad (\text{Government purchases})$$

$$T = 0.2 \quad (\text{Tax rate})$$

$$L = Y - 100r \quad (\text{Real money demand})$$

$$M = 800 \quad (\text{Real money supply})$$

Required

- i) Derive equations for IS and LM curves (5marks)
- ii) Determine the  $r$  and  $y$  pair at which the two markets are clearing (4marks)
- iii) Compute the values of  $C$ ,  $I$ ,  $X$  and  $L$ . (4marks)

**QUESTION TWO (15Marks)**

a) Using the four-quadrant diagram show the effect of the following on equilibrium  $r$  and  $y$ .

i.) An increase in the desire to save

ii.) An increase in government purchases (8marks)

b) Given the following equation, derive the expression for the IS curve.

$C = 100 + 0.8Y^d$  (Consumption function)

$I = 10 - 10r$  (Investment function)

$G = 10$  (Government purchases)

$T = 0.25$  (Tax rate) (7marks)

**QUESTION THREE (15Marks)**

(a) Explain the Limitations of Harrod-Domar Models. (4marks)

(b) Explain the three basic assumptions underlying the national income accounting. (6marks)

(c) Present your understanding of the work leisure decision and show how it is used to derive the labour supply curve. (5marks)

**QUESTION FOUR (15Marks)**

(a) Using both the product market and the money market, derive the fiscal policy multiplier and show the effectiveness of the policy. (4marks)

(b) Explain the three basic assumptions underlying the national income accounting. (6marks)

(c) Explain why  $\Delta S + \Delta T = \Delta I + \Delta G$  where

$\Delta S$  = Change in savings

$\Delta T$  = Change in taxes

$\Delta I$  = Change in investment

$\Delta G$  = Change in government purchases

(5Marks)

**QUESTION FIVE (15Marks)**

(a) Derive the aggregate demand for and supply of labour function.

(7marks)

b) Determine the equilibrium condition in the labour market.

(4marks)

c) Differentiate between voluntary and involuntary unemployment.

(4marks)