MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

BACHELOR OF COMMERCE

BACHELOR OF ARTS

EET 201: MACROECONOMICS THEORY II

DATE: 2/5/2019   **TIME: 11.00-1.00 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) State whether the following statements are true or false. Justify your answer.   (10 marks)

    i) Autonomous saving and autonomous investment are the same.

    ii) The liquidity preference theory assumes that, velocity of money and aggregate output are constant.

    iii) During the periods of high inflation the foreign prices of domestic goods increases and hence increase in output.

    iv) BP curve shows various combinations of income and interest rate which equilibrate money markets.

    v) During inflation, the monetary authority responds by reducing interest rate, which in turn reduces consumption and investment expenditure.

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

c) Discuss the factors that make the aggregate demand curve to be downward sloping.

(6 marks)

d) Discuss any four determinants of investment expenditure. (4 marks)

QUESTION TWO (20 MARKS)

a) Using Keynesian cross derive IS curve. In your own view what are factors that shift the IS curve? (8 marks)

b) Distinguish between relative income hypothesis and permanent income hypothesis.

(4 marks)

c) Discuss the determinants of labour demand in your country. (8 marks)

QUESTION THREE (20 MARKS)

a) In 1930s a major world event occurred that gave birth to macroeconomics as a branch of economics. Name the school that formalized this branch of economics, any two of its economists and discuss its major contributions. (8 marks)

b) Using well labelled diagrams explain how a balance of payment deficit would be rectified under fixed exchange rate regime. (6 marks)

c) Discuss any factors that shift the aggregate supply curve. (6 marks)

QUESTION FOUR (20 MARKS)

a) Discuss the effect monetary policy on the three ranges of LM curve. (10 marks)

b) Explain the Keynes theory of money. Criticize this theory. (6 marks)

c) Distinguish between Phillips curve and Okun's law. (4 marks)

QUESTION FIVE (20 MARKS)

a) Explain the four basic principles of consumption expenditure as outlined in Keynes absolute income hypothesis. (4 marks)

b) African economies are characterized with volatile inflation rates. Discuss causes and solutions to inflation in your country. (10 marks)

c) Discuss any three tools used to limit trade. (6 marks)