



MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS 2017/2018 ACADEMIC YEAR FOURTH YEAR SECOND SEMESTER

SCHOOL OF BUSINESS & ECONOMICS BACHELOR OF ARTS IN ECONOMICS

COURSE CODE: ECO 411

COURSE TITLE: ADVANCED MACROECONOMICS

DATE: 18TH APRIL, 2018

TIME: 0830 - 1030HRS

INSTRUCTIONS TO CANDIDATES

Answer Question **ONE** and any other **THREE** questions

This paper consists of 3 printed pages. Please turn over.

QUESTION ONE

- (a) In the classical model, unemployment is due to mismatches between workers and firms. While the Keynesian theory posits that the real wage is slow to adjust to equilibrate the labor market. Explain any THREE reasons for real-wage rigidity. **(6mks)**
- (b) Explain the Akerlof's gift exchange motive in the efficiency wage model. **(4mks)**
- (c) Explain the effects of a disturbance of the following on income and net exports:
- (i) An increase in home spending. **(3mks)**
 - (ii) An increase in foreign income. **(3mks)**
 - (iii) Real depreciation. **(3mks)**
- (d) The intersection of the IS and LM schedules determines equilibrium income and the equilibrium interest rate. Derive expressions for these equilibrium values by using the equations of the IS and LM schedules. **(6mks)**

QUESTION TWO

- (a) Distinguish the Keynesian full employment line from the classical model. **(3mks)**
- (b) Explain the FOUR business cycle facts that fits the Keynesian theory. **(8mks)**
- (c) Discuss any TWO difficulties of macroeconomic stabilization. **(4mks)**

QUESTION THREE

- (a) Explain the effect of monetary and fiscal policy in the IS-LM model on employment and output under the following cases.
- (i) An increase in money supply. **(4mks)**
 - (ii) An increase in government purchases. **(4mks)**
- (b) Discuss the disequilibrium and dynamics in the goods and money markets. **(7mks)**

QUESTION FOUR

- (a) Explain output determination for an open economy with perfect capital mobility under the assumption of both flexible and fixed exchange rates in the following cases:
- (i) An increase in the demand for exports. **(4mks)**
 - (ii) A decrease in government expenditure **(4mks)**
- (b) Discuss the Solow model of growth. **(7mks)**

QUESTION FIVE

- (a) Explain the relationship of actual real wage, employment and output to the ratio of expected price to actual price under the following:
- (i) Correctly predicted price. **(3mks)**
 - (ii) Over predicted price. **(3mks)**
 - (iii) Under predicted price. **(3mks)**
- (b) Explain the effects of interest rate and income at levels that are not on the IS curve. **(6mks)**

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