(University of Choice)

MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY (MMUST)

MAIN CAMPUS

UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER EXAMINATIONS
FOR THE MASTERS OF SCIENCE DEGREE
IN
ECONOMICS

MAIN EXAMS

COURSE CODE: **ECO 808**

COURSE TITLE: **ADVANCED MACROECONOMICS**

DATE: Thursday, 28-04-2022   **TIME:** 9:00 -12:00

INSTRUCTIONS TO CANDIDATES

ATTEMPT **QUESTION ONE** AND **ANY OTHER THREE** QUESTIONS

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 2 Printed Pages. Please Turn Over.

QUESTION ONE [40 Marks]
 a) Write detailed notes on the following;   (12 Marks)
(i)Marshall-Lerner condition
(ii)Balance of payments accounts
(iii)Keynesian multiplier
(iv)Seigniorage

b) Given the following facts and figures about an economy:

$C=100+0.8Yd$
$I=1000-100r$
$G=500$
$T=0.5Y$
$L=200+0.5Y-10r$
$M=1000$

i. Derive the expression for IS and LM curves and interpret them [6 mks]

ii. Calculate the equilibrium r, y, I and C.   [8mks]

iii. Obtain the new expression for IS curve if MPC rises to 0.9 with exogenous consumption equal to 200. State the effect of the rise in MPC on the IS curve and Show this effect diagramatically.   [4 mks]

c) Explain the conditions that make wages sticky   (6mks)
d) Explain the counter reactions of equilibrium real business cycle theory under rational expectations on the Lucas model   (4mks)

QUESTION TWO [20 MARKS]
 a. Discuss the application of monetary policy in Kenya. (10 Marks)
 b. Derive the short-run Philip's curve and explain why it is convex to the origin.
                                                    (10mks)

QUESTION THREE [20 Marks]

a) Using a well labelled diagram, clearly explain the impact of an expansionary monetarypolicy under perfect foresight rational expectation model. [10 marks]

b) Discuss the Ando-modigliani Life-cycle theory of consumption and compare and contrast the theory with James Duesenberry's Relative income hypothesis
[10 Marks]

QUESTION FOUR (20MARKS)
a) Distinguish between the theory of absolute advantage and the theory of comparative advantage.   [6 marks]
b) Highlight the assumptions of Ricardian Model.   (6 marks)
d) Discuss four major characteristics of the new classical model of employment.
(8 marks)

QUESTION FIVE [20 MARKS]
a) Given the following
$C = 100 + 0.8Y d$ – Consumption function
$I = 10 – 10r$ - Investment function
$L = Y – 100r$ – Real money demand
$G = 10$ – Government purchases
$T = 0.25$ – Tax rate
$MS = 295$ – Real money supply
Suppose equilibrium income increases by 200, by how much must real money stock increase for the new level of income to be in equilibrium.
[10 Marks]
b) Define inflation and identify six adverse effects in a country
[10 Marks]