

**UNIVERSITY OF KABIANGA**

**UNIVERSITY EXAMINATIONS**

**2014/2015 ACADEMIC YEAR**

**FOURTH YEAR SECOND SEMESTER EXAMINATION**

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

**COURSE CODE: ECO 411**

**COURSE TITLE: ADVANCED MACRO ECONOMICS**

**DATE: 22ND APRIL, 2015**

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

**INSTRUCTIONS TO CANDIDATES:**

Answer question **ONE** and any other **THREE** questions.

**QUESTION ONE (25 MARKS**)

1. Distinguish between the theory of absolute advantage and the theory of comparative advantage. (3 marks)
2. Highlight any **four** assumptions of Ricardian Model. (4 marks)
3. i. clearly explain the assumption of Rational Expectation Hypothesis. (2 marks)

ii. explain the main ideas of Rational Expectation Hypothesis. (5 marks)

1. Discuss **four** major characteristics of the new classical model of employment. (8 marks)
2. State **three** criteria upon which the choice of a particular planning model depends. (3 marks)

**QUESTION TWO (15 MARKS)**

1. clearly explain the following growth models; (6 marks)
2. Aggregate growth models.
3. Input-output models.
4. Explain **three** factors that have contributed to crisis in planning in Kenya. (6 marks)
5. Suggest any **three** viable solutions to the factors in (b) above. (3 marks)

**QUESTION THREE**

1. The following table shows the labour requirements per unit of output of food (F) and manufactures (M) between two countries X and Y. study it carefully and answer the questions that follow.

|  |  |  |
| --- | --- | --- |
|  | Country X | Country Y |
| Food (F) | 2 | 1 |
| Manufactures (M) | 3 | 2 |

Clearly explain the concept of opportunity cost in relation to theory of comparative advantage. (6 marks)

1. Discuss **four** differences between Ricardian and H-O model. (4 marks)
2. Define the term economic growth and clearly explain how the increase in the stock of factors of production can cause economic growth. (5 marks)

**QUESTION FOUR**

1. Using a well labelled diagram, clearly explain the impact of an expansionary monetary policy under perfect foresight rational expectation model. (7 marks)
2. i. Explain **three** factors that would make the prices of goods in two different countries to be equal. (3 marks)
3. what causes the differences in prices between countries. (3 marks)
4. Explain **two** basic conclusions of the factor endowment model. (2 marks)

**QUESTION FIVE**

1. Discuss **five** reasons for the predominance of economic growth objectives in developing countries. (5 marks)
2. i) Define the term full employment. (2 marks)

ii) Explain **two** reasons why full employment is a desirable macro-economic policy objective. (4 marks)

1. Discuss **two** policy implications of the new classical model. (4 marks)