

**UNIVERSITY OF KABIANGA**

**UNIVERSITY EXAMINATIONS**

**2015/2016 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: 6TH APRIL, 2016**

**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. State the causes of unemployment. (8 marks)
2. Highlight the factors which determine interest rates. (5 marks)
3. State the instruments of commercial policy. (5 marks)
4. I) State the rational expectation theory. (3 marks)

II) Differentiate between economic growth and economic development. (4 marks)

**QUESTION TWO (15 MARKS)**

1. In the context of (i) IS-LM model and (ii) AD-AS model, illustrate the effects on the equilibrium level in income and rate of interest of an increase in the demand of money. (8 marks)
2. Discuss the qualitative effect on the demand for money of the following changes;
3. An increase in the use of credit cards. (2 marks)
4. An increase in the rate of return from holding bonds. (2 marks)
5. A fall in general price level. (2 marks)
6. A decrease in the proportion of human wealth to non-human wealth. (2 marks)

**QUESTION THREE (15 MARKS)**

1. Discuss the alternative policy measures that can be used to solve the problem of unemployment. (8 marks)
2. Discuss the view that currency depreciation may be inflationary and therefore ineffective as a means of correcting balance of payments deficit. (7 marks)

**QUESTION FOUR (15 MARKS)**

1. Critically examine the comparative cost theory of international trade. (7 marks)
2. With the aid of a diagram, explain how the following causes shifts in the IS-LM equilibrium:
3. Increase in investment. (2 marks)
4. Decrease in demand for money. (2 marks)
5. Increase in government expenditure. (2 marks)
6. An increase in taxation. (2 marks)

**QUESTION FIVE (15 MARKS)**

1. i. Define commercial policy. (2 marks)

ii. What are the main objectives of the commercial policy. (5 marks)

1. Discuss why there are so many interests in an economy at any given time. (8 marks)