

MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS**

**2016/2017 ACADEMIC YEAR**

**FOURTH YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF ARTS IN ECONOMICS**

**COURSE CODE: ECO 411**

**COURSE TITLE: ADVANCED MACROECONOMICS**

**DATE: 9TH MAY 2017 TIME: 08:30 – 10:30HRS**

**INSTRUCTIONS TO CANDIDATES**

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

*This paper consists of* ***THREE*** *printed pages. Please turn over.*

**QUESTION ONE**

a) What is the contribution of the central bank to the money supply process? **(7 marks)**

b) Increase in the nominal wage (W) financed by taxes is unhealthy for the economy. Discuss **(7marks)**

c) Mathematically, Derive growth accounting equation in per capita terms **(6marks)**

d) Explain the use of multiplier in economic analysis **(5 marks)**

**QUESTION TWO**

a) Explain the relevance of Okun’s law on employment policy measures **(5marks)**

b) Explain the effect of the increase in desire to save on equilibrium income **(5marks)**

c) Prove that tax rate multiplier is always negative **(5marks)**

**QUESTION THREE**

1. Using a four quadrant diagram, discuss the effect of the following on equilibrium interest rate (r) and income (Y):
2. An increase in money supply **(5 marks)**
3. An increase in the price level **(5marks)**
4. With reference to the income and substation effects, give an account for backward bending labour supply curve for the economy **(5marks)**

**QUESTION FOUR**

Given the following equations for a certain economy

C = 100 + 0.9Yd - Consumption Function

I = 200 – 500r - Investment function

X = 100 - Export

M = 0.12Y – 500r – Imports function

G = 200 - Government purchases

T = 0.2 - Tax Rate

L = Y – 100r - Real money demand

MS = 800 – Real Money supply

Calculate:

1. Transaction demand for money **(5marks)**
2. Net export **(4marks)**
3. Monetary policy multiplier **(6marks)**

**QUESTION FIVE**

1. Derive fiscal policy multiplier **(7marks)**
2. Given the following

C = 100 + 0.8Yd – 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. **(8marks)**

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