

MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS**

**2015/2016 ACADEMIC YEAR**

***FOURTH* YEAR *SECOND* SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF ARTS ECONOMICS**

**COURSE CODE: ECO 411**

**COURSE TITLE:** **ADVANCED MACROECONOMICS**

**DATE: 4TH MAY 2016 TIME: 8.30-10.30**

**INSTRUCTIONS TO CANDIDATES**

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

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

QUESTION ONE

1. Explain the conditions that make wages sticky **(6mks)**
2. Explain the counter reactions of equilibrium real business cycle theory under rational expectations on the Lucas model **(4mks)**
3. Suppose that consumption is reduced by the interest rate. Explain the effect on IS curve

**(3mks)**

1. Assume that there is perfect mobility of capital, How does the imposition of a tariff affect the exchange rate, output and the current account? **(8mks)**
2. Suppose a linear production function is given as Y=f (K, L). By using this production function, derive the equation measuring the income growth rate. **(4mks)**

QUESTION TWO

1. Distinguish between warranted, actual and natural rates of growth in the Harrod-Domar growth model. **(6mks)**
2. Derive warranted rate of growth from the model. **(3mks)**
3. Explain the role of technological progress in the process of increasing saving and investment within the endogenous growth theory. **(6mks)**

QUESTION THREE

1. Explain the relationship of the actual real wage, employment, output to the ratio of actual price to expected price in the Lucas supply curve of imperfect information. **(9mks)**
2. Illustrate the effect of an increase in money stock on output with
3. Anticipated money **(3mks)**
4. Unanticipated money **(3mks)**

QUESTION FOUR

1. Show that a given change in money stock has a larger effect on output the less interest sensitive is demand for money **(5mks)**
2. Explain the pattern of declining output and declining interest rates using the IS-LM model for an economy experience a fall in treasury bill rate and a deeper recession **(6mks)**
3. Explain the effect of the IS curve slope as a factor in determining the working of monetary policy **(4mks)**

QUESTION FIVE

1. Given the following structural equations in an ope economy. Where the aggregate spending by domestic residents is

A=C+cY-bi

and net exports,

NX=X-Q

import spending

Q=M+mY

where M is autonomous import spending. Exports are given and are

equal to

X=X-

Suppose that; C=400, c=0.8, i0=5%, b=30, M=0, m=0.2, X=250

1. Calculate the equilibrium level of income **(4mks)**
2. Calculate the balance of trade **(2mks)**
3. Calculate the open economy multiplier **(2mks)**
4. What are the assumptions made above **(2mks)**
5. Discuss the frictionless neoclassical model of the labor market. **(5mks)**