CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF
MASTER OF SCIENCE IN FINANCE.**

MSCF 842: ADVANCED MACROECONOMIC THEORY & PRACTICE

STREAMS:

TIME: 3 HOURS

DAY/DATE: THURSDAY 8/4/2021   **8.30 AM – 11.30 PM**

INSTRUCTIONS:
- Answer Question **ONE** and any other **THREE** Questions only
- Do not write on the Question paper

QUESTION ONE

a. Solow growth model is an exogenous model of economic growth that analyses changes in the level of output in an economy over time as a result of clays in the population. Explain his statement that '' the idea is to make full employment paths no more'' in respect to theoretically capable of generating permanent full employment.   **(10marks)**

b. Public debt is a strain in future generations and should always be avoided or at least be reduced as fast as possible'' discuss this in relation to monetary and fiscal policy frameworks.   **(10marks)**

c. The two most fundamental questions in growth theory are questions about' 'convergence''. State the two fundamental questions of growth theory.   **(10marks)**

QUESTION TWO

a. Explain what is meant by dynamic inefficiency? **(5marks)**

b. Briefly describe empirical evidence for or against dynamic inefficiency. **(7marks)**

c. Define absolute convergence and conditional convergence. Can this be used to reconcile Baumol's and DeLong's productivity and income growth model? Explain your answer.

(8marks)

QUESTION THREE

i) The only way for the Kenyan economy to close her bilateral trade deficit with other nations is by either raising the national savings or reducing investment in new plant and equipment in Kenya. Discuss this statement? **(10marks)**

ii) Describe Feldstein and Horioka's economic theory of investment in relation to domestic savings, investment and international markets in an economy.

(10marks)

QUESTION FOUR

a. Discuss the major features of monetarist revolution. **(10marks)**

b. Explain the major elements promoted by Lucas in the Lucas endogenous growth model.

(10marks)

QUESTION FIVE

i) Discuss the relevance of marginal efficiency of capital (MEC) and marginal efficiency of investment(MEI). **(10marks)**

ii) Harrod and Domar assign a key role to investment in the process of economic growth. Discuss **(5marks)**

iii) Explain the classical model of unemployment(one-sided model) **(5marks)**

....