CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

RESIT/SPECIAL EXAMINATION

EXAMINATION FOR THE AWARD OF DEGREE OF MASTER OF SCIENCE IN ECONOMICS

MSEC 822: ADVANCED MACROECONOMICS

STREAMS: MSEC   **TIME: 2 HOURS**

DAY/DATE: TUESDAY 02/11/2021   **2.30 P.M – 4.30 P.M.**

INSTRUCTIONS:
- Answer question ONE and any other TWO questions.

QUESTION ONE

a) Macroeconomics have had the tendency of defending the believe that increasing demand is a good way to get out of a recession in some economic circumstances. Discuss this statement.   (10 marks)

b) Macroeconomic activities are almost exclusively the result of innovations in the industrial and commercial organization. Discuss this statement in relation to the Schumpeter's theory of innovation.   (10 marks)

c) Steady state growth is an economic equilibrium. Discuss its significance. (10 marks)

d) A slump or depression cause negative implications to the economic indicators. Discuss how the fiscal and monetary policies are used to correct such economic conditions?

(10 marks)

QUESTION TWO

a) Unemployment has been among the main macroeconomic problems faced by most economies. Explain by use of an illustration how Pigou's suggestion of alleviation of unemployment can be applied to solve this problem.   (10 marks)

b) There exists no or weak relationship between inflation and unemployment in the long run. Discuss using an illustration. (10 marks)

QUESTION THREE

a) A steady state growth is a situation of stationary equilibrium. The Neoclassical growth models explain the properties of steady state growth by incorporating and relaxing its assumptions. Discuss its properties (10 marks)

b) Discuss giving relevant examples the pure monetary theory of business cycle.

(10 marks)

QUESTION FOUR

a) The AD-AS model is one of the fundamental tools in economics because it provides an overall framework for bringing the macroeconomic factors together in one diagram. Explain the unemployment in AD-AS model. (10 marks)

b) Define economic cycle and explain hoe economic cycle works. (5 marks)

c) Discuss the long run self-adjustment in the AD-AS model. (5 marks)