

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

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

MSEC 821: ADVANCED MACROECONOMICS I

STREAMS: MSEC

TIME: 3 HOURS

DAY/DATE: TUESDAY 03/12/2019

2.30 PM – 5.30 PM

INSTRUCTIONS:**Answer Question One and any other Three****Question One (30 Marks)**

- (a) The equations provided below were obtained from the Kenyan macroeconomic model

$$C = 100 + 0.8Y_d$$

$$i = 10 - 8r$$

$$L = y - 50r$$

$$g = 100$$

$$t = 0.25y$$

$$M = 2950$$

$$P = 10$$

Required:

- (i) Compute the fiscal and monetary policy multipliers and interpret them. [6 marks]
- (ii) In both cases advise the finance C.S on when the two policies would be most effective. [4 marks]
- (b) Outline the strengths and weaknesses of Dynamic Stochastic General Equilibrium and Agent-based computational macroeconomic models. [6 marks]
- (c) Briefly explain the absorption Approach (AA) to BOP. [10 marks]

- (d) Briefly discuss what is meant by inter-temporal budget constraint in regard to consumption. [4 marks]

Question Two (20 Marks)

- (a) With the aid of relevant equations distinguish between covered interest parity (CIRP) and uncovered interest parity (UCIRP). [10 marks]
- (b) Discuss the major assumptions of the Mundell-Fleming model and with the aid of a diagram demonstrate internal and external equilibrium of the model. [10 marks]

Question Three (20 Marks)

- (a) Briefly discuss the Balassa Samuelson model outlining its major assumptions. [10 marks]
- (b) (i) Briefly define the Accelerator theory of investment. [3 marks]
- (ii) Given the following functions $X = K_t/Y_t$
Where X is the ratio of K_t , the economy's capital stock in period t , to Y_t , its output in the same period. If x is constant in the current period t and previous period $t - 1$, derive the equation for net investment. [7 marks]

Question Four (20 Marks)

- (a) Explain how macroeconomics plays a role in business cycles and identify the different periods overtime. [5 marks]
- (b) Discuss the two major data problems in the African context. [5 marks]
- (c) Discuss the main principles of the internal funds theory of investment. [10 marks]

Question Five (20 Marks)

- (a) With the aid of a well-labelled diagram demonstrate the Mundell-Fleming model under fixed exchange rate regime. [10 marks]
- (b) Define the following concepts as used in macroeconomics. [10 marks]
- (i) Household
 - (ii) Firms
 - (iii) Unemployment rate
 - (iv) Okun's law
 - (v) Output gap
 - (vi) Philips curve
 - (vii) Inflation rate

- (viii) Nominal GDP
 - (ix) An economy
 - (x) Economic model
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