CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

THARAKA CAMPUS

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

MSEC 822: ADVANCED MACROECONOMIC II

STREAMS: MSEC   **TIME: 2 HOURS**

DAY/DATE: TUESDAY 06/08/2019   **2.30 P.M. – 4.30 P.M.**

INSTRUCTIONS:
- **Answer question ONE and any other TWO**

QUESTION ONE

(a)   Unemployment is rampant in underdeveloped countries. In relations to the increase in prices of goods over time, discuss this relationship between unemployment and the rate of price increase.   (10 marks)

(b)   Discuss in details giving relevant examples the life cycle income hypothesis and permanent income hypothesis.   (10 marks)

(c)   Inflation is a necessary evil. Explain the major costs of inflation.   (10 marks)

QUESTION TWO

(a)   Use the Solow growth model to describe the steady state effects of an increase in the savings rate, of an increase in the population growth rate, of an increase in the population growth rate and of an increase in factor productivity.   (10 marks)

(b)   Describe the ten key empirical regulation relating to economic growth within and across countries since the industrial revolution.   (10 marks)

QUESTION THREE

(i)   How does the explanation for the causes of business cycle differ in the classical and Keynesian coordination failure models? (10 marks)

(ii)   Suppose there is an increase in the total factor productivity which implies that all firms offer higher wages. In the one sided model of unemployment, determine the effects of this on the reservation wages and on the long run unemployment. Explain your results. (10 marks)

QUESTION FOUR

(a)   Briefly explain the significance of the following concepts

        (i)   Supply-side economic policies
        (ii)   Neoclassical economics (10 marks)

(b)   Discuss giving relevant examples the classical theory of unemployment in developing and developed countries. (10 marks)

QUESTION FIVE

(a)   A major cause of instability and poverty in African countries is the high levels of unemployment experienced. Propose five major policies that can resolve this problem giving substantive examples. (10 marks)

(b)   As a result of major changes in American international trade policies, world trade is expected to decline substantially. Discuss these changes and why they are likely to reduce international trade. (10 marks)