

CHUKA



UNIVERSITY

**RESIT/ SPECIAL EXAMINATIONS
EXAMINATION FOR THE AWARD OF**

ECON 323: ADVANCED MACROECONOMICS

STREAMS:

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 12/09/2018

8.30 AM – 10.30 AM

INSTRUCTIONS:

- Answer question **ONE** and any other **TWO** questions
- Do not write on the question paper

Question One (Compulsory)

- a) Discuss the main macroeconomics goals [5marks]
- b) Explain clearly the role of fiscal policy in classical macroeconomics. [10marks]
- c) Distinguish between fiscal policy and monetary policy [2marks]
- d) Explain why in the graphical classical model the capital market was excluded
[3marks]
- e) Demonstrate using the classical model how the decrease in population growth would affect real macroeconomic variables, nominal wage and price. [10marks]

Question Two

- a) Explain the following theories of consumption
 - i) Absolute Income Hypothesis [5marks]
 - ii) The Relative Income Hypothesis [5marks]
 - iii) Permanent Income Hypothesis [5marks]
 - iv) Life Cycle Income Hypothesis [5marks]

Question Three

- a) Explain how BOP disequilibrium is corrected using Fiscal policy [10marks]

- b) Distinguish between frictional unemployment and Structural unemployment

[10marks]

Question Four

- b) What are rational expectations? [2marks]
- c) Explain the contribution of the theory of rational expectation and highlight its main policy implications [10marks]
- d) Explain the weaknesses of Purchasing Power Parity (PPP) theory [8marks]

