

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

RESIT/SPECIAL EXAMINATION

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF

ECON 323: ADVANCED MACROECONOMICS THEORY

STREAMS:

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 03/02/2021

11.30 A.M – 1.30 P.M.

INSTRUCTIONS

- **ANSWER ONE AND ANY OTHER TWO QUESTIONS.**

QUESTION ONE

Question One (Compulsory)

- a) What are rational expectations? (2 marks)
- b) Explain the weaknesses of Purchasing Power Parity (PPP) theory (8 marks)
- c) Discuss the major goals of macroeconomic policy and clearly define the major policies that are used by the government to achieve these macroeconomic goals
(10 marks)
- d) Demonstrate using the classical model how the decrease in population growth would affect real macroeconomic variables, nominal wage and price.
(10marks)

QUESTION TWO

- a) Discuss the major causes of BOP disequilibrium in the economy. ((10 marks)
- b) Discuss the Mundell Flemings balanced of payment adjustment policy. (10 marks)

QUESTION THREE

- i. Discuss the argument for and against flexible exchange rate regime. (10 marks)
- ii. Explain the relative income hypothesis theory of consumption. (10 marks)

QUESTION FOUR

- i. Explain the major features of endogenous growth theory showing its policy implications. (10 marks)
 - ii. Explain the contribution of the theory of rational expectation and highlight its main policy implications (10 marks)
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