



UNIVERSITY EXAMINATIONS

THIRD YEAR EXAMINATION FOR THE AWARD OF DEGREE  
OF BACHELOR OF SCIENCE IN ECONOMICS & STATISTICS, ECONOMICS  
& SOCIOLOGY AND ECONOMICS & MATHEMATICS

ECON 323: ADVANCED MACROECONOMICS

STREAMS: BSC (ECON STATS, ECON SOCI & ECON MATHS) TIME: 2 HOURS

DAY/DATE: WEDNESDAY 15/04/2020 2.30 P.M. – 4.30 P.M.

INSTRUCTIONS:

QUESTION ONE

(a) Demonstrate using classical model, how a decrease in labor supply would affect prices, nominal wages and real variables. [10 marks]

(b) Discuss the Mundel Flemings Balanced of Payment adjustment policy measures [6 marks]

marks]

(c) Suppose you are given the following equations

$$Y = K^{1/4} (L.E)^{3/4}$$

S = 0.75 Savings rate

n = 0.05 Population growth rate

S = 0.2 Depreciation rate

g = 0.15 Technological progress

Required:

(i) Calculate output per worker [6 marks]

(ii) Capital per worker [2 marks]

(iii) Investment per worker [2 marks]

(iv) Savings per worker [2 marks]

### ECON 323

- (v) Golden rule level of capital accumulation [2 marks]
- (d) Discuss the arguments for flexible exchange rate regime [4 marks]

#### QUESTION TWO

- (a) The natural rate of unemployment cannot be eliminated permanently by means of expansion of any policy. Use a diagram to explain this statement [8 marks]
- (b) Explain how adjustment is made when there are lags between levels of output and capital stock in the theory of Accelerator [6 marks]
- (c) Discuss the following theories of consumption [6 marks]
- (i) Relative income hypothesis
- (ii) Permanent income hypothesis

#### QUESTION THREE

- (a) Explain Solow's model of economic growth. In what ways it's an improvement over the Harrod –Dommar model [10 marks]
- (b) Illustrate using well-labeled diagram, automatic Balanced of Payment adjustment under fixed exchange rate regime [10 marks]

#### QUESTION FOUR

- (a) Monetary and Fiscal policies do not affect employment and output. Discuss this statement with regard to rational expectation theory. [8 marks]
- (b) State and explain the main propositions of Say's law. On what grounds Keynes criticized them? [6 marks]
- (c) Discuss causes of BOP disequilibrium in an economy. [6 marks]
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