

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

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

MSEC 821: ADVANCED MACROECONOMICS I

STREAMS: MSC (ECON) Y1S1

TIME: 3 HOURS

DAY/DATE: WEDNESDAY 14/07/2021

08.30 A.M. – 11.30 A.M.

INSTRUCTIONS:

- **Answer question one and any other three questions**

QUESTION ONE

- (a) Macro policy in developing countries such as those in Africa is primarily aimed at reducing poverty. What are the transmission mechanisms from macro policy to poverty? Explain the role of the labor market in that process. (6 marks)
- (b) Explain the effectiveness of fiscal and monetary policy in affecting GDP if the economy operates under a flexible exchange rate regime with perfect capital immobility. (6 marks)
- (c) Discuss the Mundell-Fleming model in a small open economy. Elaborate the impossible trinity. (8 marks)
- (d) Compare and contrast the views of Smith and Marx on the question of whether economic growth can improve the material well-being of the working population. (5 marks)

QUESTION TWO

- (a) Briefly outline Karl Max's critique of the Classical system and show why his prediction that the capitalist system was doomed to collapse did not materialize. (7 marks)
- (b) Discuss the marginal efficiency of investment and explain how it influences the supply of funds. (5 marks)

- (c) Explain with the help of a diagram the classical theory of employment. (3 marks)

QUESTION THREE

- (a) Explain the fact that New Keynesian propositions are a repackaging of both new Classical and Orthodox Keynesians. (6 marks)
- (b) What is accelerator theory of investment? Explain how the accelerator relationship explain short-run stabilization. (9 marks)

QUESTION FOUR

- (a) Discuss the empirical evidence for and against dynamic inefficiency. (5 marks)
- (b) Explain the major features of monetarist revolution. (5 marks)
- (c) Discuss the major elements promoted by Lucas in the Lucas endogenous growth model. (5 marks)

QUESTION FIVE

- (a) Define absolute convergence and conditional convergence. Explain how this can be used to reconcile Baumol's and Delong's productivity and income growth model? (8 marks)
- (b) A major cause of instability in economy and poverty in Africa countries is the highest levels of unemployment. Propose five major policies that can be used to resolve this problem, giving examples where these policies have worked in the past? (7 marks)
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