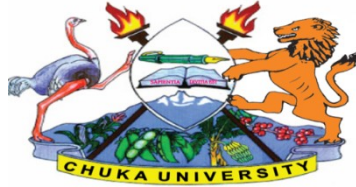


CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

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

MSEC 822: ADVANCED MACROECONOMICS II

STREAMS:MSEC

TIME: 2HOURS

DAY/DATE: THURSDAY 7/10/2021

2.30 P.M – 4.30 P.M

INSTRUCTIONS

Answer question one and any other two questions

Question one

- (a) Explain how government budget deficit affect the real exchange rate and the trade balance in accordance to Ricardian model. [10 marks]
- (b) Macroeconomics have had the tendency of defending the believe that increasing demand is a good way to get out of a recession in some economics circumstances. Discuss this statement. [10 marks]
- (c) Macroeconomy deals with an entire activity in an economy. It deals with how economy behaves, its operations and decision – making process. Explain the role of expectations in the macro economy. [10 marks]
- (d) Macroeconomic activities are almost exclusively the result of innovations in the industrial and commercial organization. Discuss this statement in relation to the Schumpeter’s theory of innovation. [10 marks]

QUESTION TWO

- (a) Business cycles alter and diminish the role of central bank in regulating the fiscal monetary stability in the economy. Do you agree with this statement by Cambridge economics that the business cycle is purely a monetary phenomenon? [10 marks]

- (b) A steady state growth is a situation of stationary equilibrium. The Neoclassical growth models explain the properties of steady state growth by incorporating and relaxing its assumptions. Discuss these assumptions. [10 marks]

QUESTION THREE

- (a) Discuss giving relevant examples the monetary over investment theory of business cycle. [10 marks]
- (b) Explain the macroeconomic influence of Samuelson's model of multiplier accelerator interaction in addressing fluctuations of macroeconomics indicators. [10 marks]

QUESTION FOUR

- (a) The AD-AS model is one of the fundamental tools in economics because it provides an overall framework for bringing the macroeconomic factors together in one diagram. Explain the growth and recession in AD-AS model. [10 marks]
- (b) Stabilization policy seeks to keep an economy by decreasing or increasing interest rates as needed. Explain how interest rates and the level of spending can bring healthy level of economy and minimal price changes. [10 marks]
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