



MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS
2022/2023 ACADEMIC YEAR
THIRDYEAR FIRSTSEMESTER**

**SCHOOL OF BUSINESS & ECONOMICS
BACHELOR OF SCIENCE IN ECONOMICS
BACHELOR OF SCIENCE IN FINANCIAL
ECONOMICS
BACHELOR OF SCIENCE IN ECONOMICS &
STATISTICS**

**COURSE CODE: ECO 3203-1
COURSE TITLE: ADVANCED
MACROECONOMICS**

DATE: 24/4/2023

TIME: 1430-1630 HRS

INSTRUCTIONS TO CANDIDATES

1. Answer Question **ONE** and any other **TWO** questions

QUESTION ONE

- (a) Discuss the different models that can be used to justify the existence of sticky wages, and hence the ability of aggregate demand to affect output. **(6 marks)**
- (b) Provide the basic illustration of the Solow growth model. Interpret it, being careful to explain the meaning of the saving and investment requirement lines. Why does the steady state occur where they cross? **(7 marks)**
- (c) Explain why successful gamblers (and thieves) might be expected to live very well even in years when they don't do well at all. **(4 marks)**
- (d) Describe a situation that could produce stagflation and its avoidance. **(3 marks)**

QUESTION TWO

- (a) Explain how the ability of inflation expectations to shift the Phillips curve helps the economy to adjust, automatically, to aggregate supply and demand shocks. **(8 marks)**
- (b) Analyze the effects of a reduction in the nominal money stock on the price level, on output, and on the real money stock when the aggregate supply curve is positively sloped and wages adjust slowly over time. **(7 marks)**

QUESTION THREE

- (a) Suppose that actual output is 120 billion and potential (full-employment) output is 156 billion. What is an output gap in this hypothetical economy? Based on your estimate of the output gap, would you expect the unemployment level to be higher or lower than usual? **(8 marks)**
- (b) In terms of the permanent-income hypothesis, would you consume more of your Christmas bonus if (a) you knew there would be a bonus every year, or (b) this was the only year the bonus would be given? **(7 marks)**

QUESTION FOUR

- (a) Discuss the relationship between the accelerator model of inventory investment and the flexible accelerator model of capital accumulation? **(7 marks)**
- (b) Discuss the rational expectations theory? How do rational expectations differ from perfect foresight? Is monetary policy neutral under both assumptions? **(8marks)**

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