



MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS

2020/2021 ACADEMIC YEAR

SECONDYEAR FIRSTSEMESTER

SCHOOL OF BUSINESS & ECONOMICS

DOCTOR OF BUSINESS ADMINISTRATION

COURSE CODE: DBA 9103

COURSE TITLE:ECONOMIC ANALYSIS

DATE: 8TH OCTOBER, 2021

TIME: 0830-1130HRS

INSTRUCTIONS TO CANDIDATES

1. Answer **ALL** questions

*This paper consists of **two** printed pages. Please turn over.*

QUESTION ONE

You are a duopolist producer of a homogeneous good. Both you and your competitor have zero marginal cost. The market demand curve is given by:

$P = 60 - Q$. Where $Q = Q_1 + Q_2$, Q_1 is your output, and Q_2 is your competitor's output.

- (a) You and your competitor will play this game only once, and you both announce your decisions at the same time.
 - (i) What is your choice of output Q_1 ? (5mks)
 - (ii) What do you expect your competitor to choose for Q_2 ? (1mk)
 - (iii) What price P do you expect to exist in the market? (1mk)
- (b) You play the game only once, as above, but this time you must announce your decision before your competitor does. Will you choose the same quantity? If not, how much will you produce? (4mks)
- (c) Now, instead of choosing output, you and your competitor each choose a price. Because the output is homogeneous, consumers will purchase from whoever offers the lowest price. Again, you will play this game only once, and the objective is to maximize your profit. Will you choose the price you expected to occur in (a)? If not, what is your choice of price P ? (4mks)

QUESTION TWO

- (a) Explain the economic growth process in the neo-classical model. (5mks)
- (b) What are the implications of (a) above? (2mks)
- (c) Discuss the effects of financial intermediation on economic growth. (5mks)
- (d) Explain the assumptions of the endogenous growth model. (3mks)

QUESTION THREE

- (a) (i) Using appropriate macro-model, discuss the universal call to cut government spending in countries with large current account deficits. (5mks)
- (ii) From your model (i). What will the effect on current account balance of an increase in exports be? (3mks)
- (iii) Explain the assumptions underlying your model. (3mks)

(b) Hedonic analysis gives the market valuation of product characteristics, which is key to design and pricing. Discuss.

(4mks)

QUESTION FOUR

(a) (i) Explain the three types of budget deficit. **(6mks)**

(ii) Explain the implications of the budget deficit sustainability/consistency condition. **(3mks)**

(b) With an illustration, explain the significance of the following concepts to economic analysis in consumer and producer behavior.

(i) Marginal rate of substitution. **(3mks)**

(ii) Marginal rate of technical substitution. **(3mks)**