



# **MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATIONS**

**2022/2023 ACADEMIC YEAR**

**FOURTH YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS  
BSC. ECONOMICS, FINANCIAL ECONOMICS &  
ECONOMICS & STATISTICS**

**COURSE CODE: ECS 4107**

**COURSE TITLE: MACROECONOMIC POLICY ANALYSIS**

**DATE: 13<sup>TH</sup> DECEMBER 2022**

**TIME: 1430-1630**

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**INSTRUCTIONS TO CANDIDATES**

1. Answer Question **ONE** and any **THREE** questions Time **2 hours**.

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

### **QUESTION ONE (25 MARKS)**

- a) Discuss the following aspects as regards macroeconomic policy analysis
- i. Foreign Direct Investments (FDI) (2 marks)
  - ii. Mundel-Flemming Model (2 marks)
  - iii. Efficiency Wage Theory (2 marks)
  - iv. Any four reasons for bequests (2 marks)
  - v. Social Infrastructure (2 marks)
- b) You have been hired as an Economist in the Ministry of Finance and Planning. The Cabinet Secretary convenes a plenary to discuss how to overcome market constraints as a pro-poor growth strategy in Kenya. Discuss some of the policy recommendations you would offer to the plenary (5 marks)
- c) Derive the Key equation of the Solow Growth Model (10 marks)

### **QUESTION TWO (15 MARKS)**

- a) Explain in detail the key macroeconomic determinants of fiscal policy in East Africa. (7 marks)
- b) Debt financing is a good policy strategy for infrastructural development. Kenya has increased its external debt portfolio in the recent years. What key policy lessons can we borrow from the Kenya-China debt relations? (8 marks)

### **QUESTION THREE (20 MARKS)**

- a) According to the New Growth theory discuss the four major forces governing allocation of resources to the development of knowledge? (6 marks)
- b) Illustrate by aid of a diagram (graph and phase diagrams) the impact of a change in the saving rate on the output of a Solow economy on a balanced growth path. (6 marks)
- c) Discuss the baseline Real-Business-Cycle model showing the behaviour of  $Y, K, A, L$ . (Hint: omit household's behavior) (8 Marks)

### **QUESTION FOUR (15 MARKS)**

- a) Discuss the key assumptions of the Ramsey-Cass-Koopmans Model showing clearly the planners problem. (8 marks)
- b) Discuss the permanent income consumption hypothesis showing its implications (7 marks)

### **QUESTION FIVE (15 MARKS)**

- a) Discuss the impact of a 1 percent technological and government spending on key macroeconomic variables using phase diagrams (7 marks)
- b) Discuss the justifications of efficiency wage model stating its key assumptions. (8 marks)

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