



MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS
2018/2019 ACADEMIC YEAR
FOURTH YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS
BACHELOR OF ARTS (ECONOMICS)**

COURSE CODE: ECO 423

COURSE TITLE: ECONOMIC POLICY ANALYSIS

DATE: 11TH DECEMBER, 2018

TIME: 0830 - 1030 HRS

INSTRUCTIONS TO CANDIDATES

Answer Question **ONE** and any other **THREE** questions

This paper consists of 2 printed pages. Please turn over.

QUESTION ONE

- a) The world market price for sugar is \$ 35 per tone while the production cost in Kenya stands at \$ 60 per tone. Kenya produces 550,000 Metric tones of sugar but consumes 850,000 metric tones. In order to protect the local industry, the government has imposed an import tariff of 100% on all sugar imports from outside COMESA region, but has restricted imports from COMESA region to 200,000 metric tonnes. At a cost of \$ 30 per tone and \$ 70 per tone, no sugar would be produced and consumed respectively in Kenya. Discuss the impact of this policy on:
- i) Welfare; **(8 marks)**
 - ii) Resource transfers. **(8 Marks)**
- b) Explain the concept of compensation criterion. **(4 Marks)**
- c) Distinguish between policy and policy instruments. **(5 Marks)**

QUESTION TWO

The structural constraints of low levels of development has made economists favour policies aimed at transforming the economic structure in order to accelerate growth rather than for growth to transform the economic structure. Discuss. **(15 Marks)**

QUESTION THREE

Unlike market economies where only a small degree of public ownership exists, developing countries have substantial government ownership and control. As an economic policy analyst, discuss the twin concepts of state and market failures that inform the choice of economic policies in a country such as Kenya. **(15 Marks)**

QUESTION FOUR

Discuss the role of Fiscal and Monetary policies on economic development of Kenya. **(15Marks)**

QUESTION FIVE

- a) Economic policy analysis is based on the concept of Pareto optimum as the cornerstone of welfare economics. Discuss. **(10 Marks)**
- b) Distinguish between adverse selection and moral hazards. **(5 Marks)**
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