KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF MASTER OF PUBLIC POLICY AND ADMINISTRATION

APP 805: MACROECONOMIC THEORY FOR PUBLIC POLICY

DATE: Thursday 18th May 2017 **TIME: 5.30p.m -8.30p.m**

INSTRUCTIONS:

Answer **QUESTION ONE** and any other **TWO QUESTIONS**

QUESTION ONE

Differentiate between the following pairs of terms using examples from the Kenyan economy:

a) Inflation and Unemployment **(5 marks)**
b) Consumer Price Index and Producer Price Index **(5 marks)**
c) Budget deficit and Budget Surplus **(5 marks)**
d) Money demand and money supply **(5 marks)**
e) Product market equilibrium and money market equilibrium **(5 marks)**
f) Economic and Economic Development **(5 marks)**

QUESTION TWO

a) Macroeconomics can be said to be the study of the business cycle. Explain your understanding of this phenomenon in macroeconomics. **(9 marks)**

b) With the aid of a well labeled diagram, show the possible effects of increasing income on interest rates? **(6 marks)**

QUESTION THREE

a) Reconciling producer and consumer behaviour in the economy is an important understanding of equilibrium income. Demonstrate the meaning of equilibrium income and show how it is determined. **(8 marks)**

b) The Government of the day has promised to reduce unemployment in Kenya, especially youth unemployment through various efforts. As a public policy graduate, suggest five ways in which the government may reduce youth unemployment in Kenya. **(7 marks)**

QUESTION FOUR

a) With the use of well labeled diagrams, differentiate between fiscal and monetary policy. **(6 marks)**

b) Outline the sources of both the cost push and demand pull inflation. How would fiscal and monetary policy be used to solve inflation problems in an economy? **(9 marks)**

QUESTION FIVE

a) Write a short essay on how the government can reduce its deficit and ensure that it is sustainable. **(9 marks)**

b) The following equations describe a certain economy

$c = 200 + 0.68y^d;\ i = 100 - 5r;\ g = 800;\ l = 0.2y - 100r;\ M = 6000, P = 15,$
$X = 200, M_i = 10 - 0.25y$

Where: c is real consumption expenditure
i is real gross investment
g is real government expenditure
l is real money demand
M is nominal money supply
The tax rate is 30 percent
Mi is imports
X are exports

Required:

Compute both the fiscal and monetary policy multipliers and interpret your results. Show using the multipliers when both multipliers would be most effective. **(6 Marks)**