KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF MASTER OF PUBLIC POLICY ANALYSIS

APP 805: MACROECONOMIC THEORY FOR PUBLIC POLICY

DATE: Wednesday, 31st January 2018 **TIME**: 5.30 p.m. - 8.30 p.m.

INSTRUCTIONS:

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

QUESTION ONE

Differentiate between the following pairs of terms using examples from the Kenya Economic Survey (various issues):

a) Potential GDP and Actual GDP **(5 marks)**
b) Stagnation thesis and Accelerator theory **(5 marks)**
c) Real GDP and Nominal GDP **(5 marks)**
d) M0 and M3 definitions of money **(5 marks)**
e) Inflation and Unemployment **(5 marks)**
f) IS and LM Curves **(5 marks)**

QUESTION TWO

a) Explain why economics is considered the study of the business cycle, clearly enumerating what these cycles are in an economy. **(9 marks)**

b) Explain how fiscal and monetary policies would be used to mitigate fluctuations in the business cycle. Use relevant examples from the Economic Surveys by Kenya National Bureau of Statistics. **(6 marks)**

QUESTION THREE

a) Unemployment is becoming a major problem in most economies in Sub Saharan Africa. Explain four main ways in which we can reduce the soaring unemployment especially in Kenya. **(8 marks)**

b) Using the equation that preserves constant income shares, show the drivers of price inflation. **(7 marks)**

QUESTION FOUR

a) What are the determinants of effectiveness of demand management policies? **(6 marks)**

b) Using macroeconomic tools of analysis, derive the individual and aggregate supply curve of labour in the economy? **(9 marks)**

QUESTION FIVE

a) Write a short essay on how the government can reduce its budget deficit and ensure that it is sustainable. **(5 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. **(10 Marks)**