KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF MASTER OF ECONOMICS (POLICY AND MANAGEMENT)

EAE 829: ECONOMIC POLICY ANALYSIS, DESIGN AND EVALUATION

DATE: Wednesday, 17th May 2017 **TIME: 2.00 p.m. - 5.00 p.m.**

INSTRUCTIONS:

ATTEMPT ALL QUESTIONS

Question One

Instructions: Read the excerpts below carefully and answer the questions that follow

Africa has the world's youngest population, which is growing rapidly. In 2015, the population of young Africans aged 15 - 24 years was estimated at 229.6 million, making up 19.4 per cent of the total population, with children under 15 years forming another 40.9 per cent (UN-DESA, 2015). Moreover, compared to other regions of the world where the youth proportion in the population has reached a plateau or is in decline, the growth rate of the African youth population is rising. By 2030, the numbers of young people aged 15 - 24 years in Africa will have increased to 331.4 million or 19.7 per cent of the continent's population.

One of the issues affecting Africa's youth is unemployment. In the Middle East and North African countries, for example, youth unemployment rate reached 24 per cent in Algeria in 2013, with the country's young females experiencing an unemployment rate of 38.7 per cent compared to 21 per cent for young males. In 2013, youth unemployment level in Tunisia was 31.2 per cent, some 7.7 percentage points lower than that of Egypt, which was 38.9 per cent. The young females in Egypt were almost three times more likely to be unemployed (71.1 per cent) than the male youth (25.8 per cent). Youth unemployment level in Morocco was 18.5 per cent in 2013, and young males in the country bore a relatively heavier brunt of the unemployment (19 per cent) than young females (16.9

per cent). Youth unemployment in Africa (excluding North Africa) was expected to ease marginally from 12.1 per cent in 2009 to 11.8 per cent in 2014, and to stabilize at 11.7 per cent in 2015-2018.

i) Verify, define and detail the policy problem discussed above. (3 Marks)

ii) Identify and explain three (3) possible alternative policies to address the policy problem. (3 Marks)

iii) Use the Alternative Consequence Matrix Method to display the alternative policies and select the preferred policy alternative (State any assumptions made) (9 Marks)

Question Two

a) Use relevant examples to explain the elements of a policy evaluation continuum.(5 Marks)

b) State and briefly explain five elements of political criterion of policy evaluation. (5 Marks)

c) Briefly explain **five** sources of alternative policies. (5 Marks)

Question Three

Two newsprint producers, public and private are located along a river. The public newsprint company is located upstream while the private one is downstream. The public upstream firm has a production function of the form: $x=2000_x^{0.5}$. The downstream private firm has a similar production function but its output may be affected by chemicals that the public firm pours into the river. The private firm's production function is given as: $y=2000l_y^{0.5}(x-x_0)^{\alpha}\ for\ x \succ x_0)$. $y=2000_x^{0.5}$. For $(x \le x_0)$, where x_0 represents the river's natural capacity for pollutants and α is a measure of externality. The newsprint sells for $1 per copy and workers earn $50 per day.

i) Find the profit maximizing levels of output for each of the firms assuming a nil externality (i.e $\alpha = 0$) (5 Marks)

ii) Find firm y's profit maximizing levels of labour inputs and production if $\alpha = -0.1$. (3 Marks)

iii) Suppose that the government sells off the public firm to the private investor, the two firms merge and the manager must now decide how to allocate the combined workforce. The manager decides to transfer one worker from the public firm to the private firm. Determine the optimal levels of output for each of the two firms. (4 Marks)

iv) What would be the policy implication if the public firm hires an additional worker? (3 Marks)

Question Four

a) Many countries in Africa have designed and implemented various interventions to tackle youth unemployment. The interventions have variously been targeted at affecting the employment chances of young people by influencing the dynamics of labour demand, labour supply and improving the match between supply and demand sides of the labour market. The youth employment interventions have mainly revolved around policy guidance, provision of vocational education and training, acquisition of skills and work training, enhancing the entrepreneurial capacities of young workers to allow them to take advantage of employment opportunities as labour demand increases. Some of the interventions also involve direct job search inc ountries abroad, employment creation through public works programmes and facilitating self-employment by young people, particularly in the informal sector. A constant in many countries, however, is that youth unemployment remain a major challenge and is a real threat to the prospects of the countries reaping dividends of their youth bulges. Based on this example, identify and explain the reasons for policy failure in most African countries. (10 Marks)

b) Explain **five** principles of quick policy evaluation. (5 Marks)