DBA 5204: MACROECONOMIC POLICY AND ANALYSIS

EXAMINATION FOR SEPTEMBER 2020

PhD (BUSINESS ADMINISTRATION)

Instructions: Attempt **question one (1)** and **any other two**.

QUESTION 1 (30 MARKS)

From a policy perspective, briefly discuss the following economic phenomenon :

a) Estimation of gross domestic product using the expenditure approach (7 marks).
b) The economic multiplier (8 marks)
c) The unholy trinity in open economic systems (8 marks)
d) Economic business cycles (7 marks)

QUESTION TWO (15 MARKS)

The following equations describe a certain economy:

$C = 400 + 0.75Y^d$ the consumption function, Y^d is disposable income

$I = 200 – 100r$ the investment function, r is interest rate

$T = 70 + 0.2Y$ the tax function, Y is gross national income

$G = 100$ the government expenditure

$X = 10$ exports

$M = 150 + 0.06Y$ imports

$Ms = 4000$ money supply

Md = 0.2Y -10r money demand

Required:

a) Explain the LM and IS equations (5 marks)
b) Derive the LM equation (2 marks)
c) Derive the IS equation (2 marks)
d) Compute the equilibrium national income (5 marks)

QUESTION THREE (15 MARKS

Policy makers employ fiscal and monetary policies to stimulate economic growth and to attain economic stabilization. Making extensive use of graphs, discuss when:

a) The fiscal policy is potent in raising national income (7 marks)
b) The monetary policy is impotent in raising national income (8 marks)

QUESTION FOUR (15 MARKS)

Economic growth is major concern of citizens and policy makers and development practioners worldwide. Many theories have been advanced on how economic systems reach steady state equilibrium growth.

a) Explain the pertinent assumptions and workings of the Sollow growth model.(8 marks)
b) Discuss the applicability of the Sollow growth model in Kenya. (7 marks)

QUESTION FIVE (15 MARKS)

The Cobb- Doughlas production function is a versatile tool in modeling certain economic phenomenon. As a policy researcher you are provided with a function of the form:

$$Y = A\ X1^{\alpha}X2^{\beta}X3^{\mu}$$

Where Y is gross domestic product, X1 is capital, X2 is labour and X3 is a matrix of climatic variables; α, β, and μ are parameters to be estimated.

a) Explain economic parameters that the above function can be used to estimate. (5 marks)

b) Explain the econometric estimation of the above using the Ordinary Least Squares (OLS) estimation (5 marks)

c) Assume that you are interested in estimation of returns to scale, interpret the parameter α, β and μ. (5 marks)