DEDAN KIMATHI UNIVERSITY OF TECHNOLOGY
UNIVERSITY EXAMINATION ACADEMIC YEAR 2015/2016
FIRST YEAR EXAMINATION FOR THE MASTERS OF SCIENCE IN ECONOMICS

BEC 4206 MACROECONOMIC POLICY ANALYSIS

DECEMBER 2015   **TIME: 2 HOURS**
Instructions:
Answer question ONE and any other TWO questions

SECTION A (30 marks)
QUESTION ONE

Using algebra and/or graphical illustrations examine the following economic phenomenon from a policy perspective:
   a) The divisions of national income assuming a Cobb-Doughlas production function.
   b) Technological progress in the Solow economic growth model with emphasis on the steady state.
   c) How monetary policy shifts the LM curve and changes the short run equilibrium with special reference to a small closed economy.

SECTION B
QUESTION TWO

Currently, the Kenyan economy is experiencing rising interest rates though the short run picture of the economy is bullish. The minister in charge of the national treasury has contracted you to advice on how the interest rates can be brought down without slowing down economic growth. Demonstrate, using the IS-LM framework, how a policy mix can achieve this. (15 marks).

QUESTION THREE

Discuss the role of consumption and savings in the growth of an economy. Clearly distinguish between the Keynesian consumption and the Milton Friedman permanent income hypothesis. Do these two views of consumption differ in the way they influence macroeconomic policy? (15 marks)

QUESTION FOUR

Examine the policy implications of the following:
a) The Mundell-Fleming model with a floating exchange rate (8marks)
b) The size of the government debt and the twin deficits (7 marks)