



STRATHMORE BUSINESS SCHOOL
MASTER OF SCIENCE IN DEVELOPMENT FINANCE
END OF SEMESTER EXAMINATION
MDF 8102: MICRO AND MACRO ECONOMICS

Date: Friday 13th December 2024

Time: 3 Hours

Instructions

- a) The examination consists of FIVE questions
- b) Answer question **ONE (COMPULSORY)** and any other **TWO** questions in the Answer Booklet provided

Question 1 (Compulsory) (30 Marks)

Identify which statements below are TRUE and which ones are FALSE. Provide explanations to support your answers.

- (a) The law of demand states that, all else being equal, as the price of a good decreases, the quantity demanded increases.
- (b) Government policies, such as price ceilings, can lead to shortages in the market.
- (c) Behavioral economics assumes that consumers are perfectly rational in their decision-making processes.
- (d) The marginal cost of production decreases as output increases due to economies of scale.
- (e) In perfect competition, firms can influence the market price by changing their output levels.
- (f) International trade allows countries to specialize in the production of goods where they have a comparative advantage.
- (g) The IS-LM model illustrates the relationship between interest rates and real output in the goods and money markets.
- (h) A trade deficit occurs when a country's imports exceed its exports.
- (i) The business cycle is characterized by regular, predictable fluctuations in economic activity.
- (j) Macroeconomic policies include both fiscal policy (government spending and taxation) and monetary policy (control of the money supply).
- (k) The foreign exchange market is where currencies are traded, and exchange rates are determined by supply and demand.
- (l) Economic globalization leads to greater economic independence among countries.
- (m) The public sector has no significant impact on economic growth in a global context.
- (n) In an open economy, domestic interest rates can be influenced by foreign capital flows.

- (o) Commodity markets only deal with raw materials and have no connection to financial markets.

Question 2 (15 Marks)

- (a) Discuss the effect of government policies on demand and supply. Provide examples of specific policies and their effects on market equilibrium. **(7.5 Marks)**
- (b) Analyze the role of the IS-LM model in understanding macroeconomic equilibrium. How can it inform policymakers during economic fluctuations? **(7.5 Marks)**

Question 3 (15 Marks)

- (a) Evaluate the concept of behavioral economics and its implications for traditional economic theories. How does it change our understanding of consumer behavior? **(7.5 Marks)**
- (b) Examine the relationship between international trade and economic growth. What are the benefits and potential downsides of increasing trade? **(7.5 Marks)**

Question 4 (15 Marks)

- (a) Assess the different market structures (perfect competition, monopoly, oligopoly) and their impact on pricing and output decisions. How do these structures affect consumer welfare? **(7.5 Marks)**
- (b) Discuss the importance of the balance of payments in assessing a country's economic stability. What factors can lead to imbalances, and how can they be addressed? **(7.5 Marks)**

Question 5 (15 Marks)

- (a) Analyze the theory of production and costs. How do the relationships between inputs and outputs influence a firm's production decisions? **(7.5 Marks)**
- (b) Evaluate the effectiveness of macroeconomic policies in managing the business cycle. Discuss specific policy tools and their impact on economic stability. **(7.5 Marks)**