



Strathmore
UNIVERSITY
BUSINESS SCHOOL

STRATHMORE BUSINESS SCHOOL

MASTER OF SCIENCE IN DEVELOPMENT FINANCE

END OF SEMESTER EXAMINATION

MDF 8102: MICRO AND MACRO ECONOMICS

Date: Tuesday, 5th January 2021

Time: 3 Hours

Instructions

1. Attempt question **ONE** and **ANY OTHER TWO** questions

Question 1 (Compulsory) (30 Marks)

- a) Using a relevant example of government spending, derive the multiplier effects of a fiscal policy **(15 marks)**
- b) Draw a well-labelled diagram showing the effects of import quotas and conduct a welfare analysis. The welfare analysis should identify all the effects of import quotas to the economy. **(15 marks)**

Question 2 (15 Marks)

Maurice has the following utility function: $U(X, Y) = 20X + 80Y - X^2 - 2Y^2$, where X is his consumption of CDs, with a price of \$1, and Y is his consumption of movie videos, with a rental price of \$2. He plans to spend \$41 on both forms of entertainment. Determine the number of CDs and video rentals that will maximize Maurice's utility.

Question 3 (15 Marks)

The production function for a product is given by $q = 100KL$. If the price of capital is \$120 per day and the price of labor \$30 per day, what is the minimum cost of producing 1000 units of output?

Question 4 (15 Marks)

- a) Test the theory of perfect competition and monopoly in the market for a product that can take the two market structures **(10 marks)**
- b) Why is the Marginal Revenue Curve below the Demand Curve in a Monopoly? **(5marks)**