



Strathmore
UNIVERSITY

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

Date: Monday, 5th March 2018

Time: 3 hours

Instructions:

Answer question **ONE** and any other **THREE** questions

Question 1 (Compulsory) (40 Marks)

- a) Why does fiscal policy have a multiplied effect on income? Consider now how an increase in government spending affects equilibrium income and derive the government multiplier. Assume that Marginal propensity to consume is 0.6. **(10 Marks)**
- b) Using relevant examples differentiate between adverse selection and moral hazard **(10 Marks)**
- c) Differentiate between consumer surplus and producer surplus and apply the concepts in analyzing the welfare costs of monopoly **(10 Marks)**
- d) Is GDP a Good Measure of Economic Well-Being? Discuss. **(10 Marks)**

Question 2 (20 Marks)

- a) Describe the ways policymakers can respond to the inefficiencies caused by monopolies. **(10 Marks)**
- b) Discuss the conditions that need to be met for price discrimination to occur **(10 Marks)**

Question 3 (20 Marks)

Given the cobb-Douglas utility function $U(X, Y) = X^\alpha Y^{1-\alpha}$ and the budget constraint $P_X X + P_Y Y = I$. Derive the Marshallian (or Ordinary) demand function and comment on the Lagrange multiplier

Question 4 (20 Marks)

We can write the demand and supply curves algebraically as follows:

Demand: $Q = a - bP$

Supply: $Q = c + dP$

- a) Find the values of the constants a, b, c, and d in the supply and demand equations based on the supply and demand for the world copper market. The relevant numbers for the copper market are as follows: Equilibrium Quantity $Q^* = 18$ million metric tons per year (mmt/yr) Equilibrium Price $P^* = \$3.00$ per pound, Elasticity of supply $E_S = 1.5$ Elasticity of demand $E_D = -0.5$. **(14 Marks)**
- b) What would a 55-percent decline in demand do to the price of copper? **(6 Marks)**

Question 5 (20 Marks)

Arguments for and against economic globalization. Does globalization help or hurt the World's Poor? Discuss