



MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS
2023/2024 ACADEMIC YEAR
SECOND YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS & ECONOMICS
MASTER OF SCIENCE IN ECONOMICS
MASTER OF ECONOMICS & STATISTICS**

COURSE CODE: ECO 8201

COURSE TITLE: ECONOMIC POLICY ANALYSIS

DATE: 5/2/2024

TIME: 1430-1730 HRS

INSTRUCTIONS TO CANDIDATES

1. Answer **ALL** questions

QUESTION ONE

- (a) “The role of economic policy analysis is not to settle the ‘war of Gods’ but to disentangle the role of the scientist and that of the politician” Discuss. **3 marks**
- (b) Competitive markets are deemed to be Pareto-efficient. Then why should the government intervene? **4 marks**
- (c) Government intervention is optimal when it maximize social welfare. Suppose the government to increase access to quality healthcare provision to low income individuals, which tools may the government use? **3 marks**
- (d) What are the effects of different economic policies suggested in (c)? **2 marks**
- (e) Sometimes, what seem to be the optimal set of policies are not the one that government pursues. Why? **3 marks**

QUESTION TWO

- (a) Suppose a consumer with an income level 300 derives utility from two goods x_1 and x_2 . The price of x_1 is 20 and of x_2 is 15. The government imposes a tax that increase the price of x_2 to 30. What amount of money should the government give the consumer to restore him/her to the initial welfare position? **4 marks**
- (b) What amount of money would the consumer be willing to pay to the government before the tax imposition on x_2 ? **4 marks**
- (c) Consider an unemployment fund that pays the unemployed above the minimum wage bill. Discuss the implications of this policy to the labor market. **4 marks**
- (d) What is the effect of (c) on the economy? **3 marks**

QUESTION THREE

- (a) Suppose a steel manufacturing firm is located upstream and fish hatcher downstream and uses the river to hatch fingerlings. How will they get into negotiations to use the river resource to benefit both? **2 marks**

- (b) Discuss any one government policy intervention to address the negotiation challenges. **3 marks**
- (c) Explain the optimal level of public good implementation with Lindhal pricing policy tool. **4 marks**
- (d) Why does the private sector have a better chance of overcoming the free rider problem in public goods provision? **4 marks**
- (e) Gruber & Koszegi (2004) discounting preferences for the smoker is $U = U[c] + \beta^x$ and $x^t \cup [c_t]$ with $\beta \leq 1$. Under what condition will the planner maximize utility? How can tax correct this externality? **2 marks**

QUESTION FOUR

- (a) By an illustration, discuss the determination of the optimal size of local communities (counties) **4 marks**
- (b) Discuss the institutional limitations of this counties. **4 marks**
- (c) In Kenya, equalization fund was established to enhance counties growth that were lagging behind other counties. Should we care about inequalities across the counties? **4 marks**
- (d) How can optimal redistribution be done across counties. **3 marks**

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