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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2020/2021 ACADEMIC YEAR FOUR**

**SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: ECO 423**

**COURSE TITLE: ECONOMIC POLICY ANALYSIS**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 07/04/2021 TIME: 3.00-5.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) questions**
* **Use sketch diagrams to illustrate your answer whenever necessary**
* **Do not carry mobile phones or any other written materials in examination room**
* **Do not write on this paper**

**This paper consists of TWO (2) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

In the spirit of rural and regional development, Kenyan national government in conjunction with the county government of Machakos has tarmacked many rural roads which were initially impassable especially during the rainy season. During construction of these road it was agreed between the contractors and the county government that 70% of labor force should comprise county residents.

After the construction of a number of these roads, several companies e.g. Imara Daima Mabati limited, Joy milling limited and many others have opened factories near a number of small hamlets within the county. As a result, some people have benefited with employment from these companies and in the spirit of social corporate responsibility, some companies have renovated classrooms in some local schools, provided piped water to some villages, installed street lights etc.

**Required**

1. Briefly explain three costs involved in construction of these roads and suggests a shadow price for each (**9marks)**
2. Identify three benefits accruing to residents of this county and suggest a shadow price for each **(6marks)**
3. Identify and briefly explain three negative externalities that might be facing these villages **(9marks)**
4. iv) Explain three policy measures that the county government can implement to curb negative externalities. **(6marks)**

**QUESTION TWO (20marks)**

1. Define antitrust policy and explain two ways in which antitrust bodies influences the behavior of a firm **(8marks)**
2. Explain six reasons why public sector is important **(6marks)**

**QUESTION THREE (20marks)**

1. Briefly explain how price mechanism works in allocating resources **(6marks)**
2. Explain why a government would conduct cost benefit analysis before supplying a public good. Use diagram(s) (14 Marks)

**QUESTION FOUR (20marks)**

1. Discuss three major causes of externalities ( 6 Marks)
2. By use of a diagram, explain how Pigouvian tax can help reduce pollution ( 10 Marks)
3. Distinguish between social and private costs ( 4 Marks)

**QUESTION FIVE (20marks)**

1. Mathematically develop the Pareto efficiency condition in the entire economy (10marks)
2. Using a diagram show the deadweight loss caused by monopoly (10marks)