



# **SOUTH EASTERN KENYA UNIVERSITY**

## **UNIVERSITY EXAMINATIONS 2016/2017**

### **FIRST SEMESTER EXAMINATION THE DEGREE OF BACHELOR OF ECONOMICS AND BACHELOR OF ECONOMICS AND STATISTICS**

#### **XET 402: INSTITUTIONAL ECONOMICS**

**DATE: 14<sup>TH</sup> DECEMBER 2016**

**TIME: 1.30-3.30PM**

**INSTRUCTIONS: Answer Question ONE and Any Other Two**

#### **QUESTION ONE. (30 MARKS) COMPULSORY**

- (a) State the different roles played by the state in an economy (5 marks)
- (b) Explain the essence of institutional economics in modern world. (5 marks)
- (c) Differentiate between the common law and civil law as used in institutional economics (5 marks)
- (d) Property and property rights should be protected by the state. Explain the ways of protecting these rights using the knowledge learned in institutional economics. (5 marks)
- (e) Explain the different modes of governance and how they affect the economy of a country. (5 marks)
- (f) The judiciary plays an important role in the economy. Explain how an economy is affected by judicial decisions. (5 marks)

### **QUESTION TWO (20 MARKS)**

- a. There is a relationship between the economy and institutions. Cite the institutions and how their recommendations can positively or negatively affect the economy. (10 marks)
- b. A government is a political institution which makes decisions affecting the economy. Explain briefly some positive decisions made by the state and their positive effect on the economy. (5marks).
- c. Development is institution based. Explain five institutions that help spur economic development and how they do so. (5marks).

### **QUESTION THREE (20 MARKS)**

- a) Write short notes on the following.
  - (i) Rationality rule (4marks)
  - (ii) The principle of formalism. (4marks)
  - (iii) Property and property rights. (4marks)
- b) The common law is seen as encouraging economic growth and development. Explain in details why and how this law spurs the economy. (8 marks)

### **QUESTION FOUR (20 MARKS)**

- (a) Explain the four institutions that cause fundamental growth of the economy. (16 marks)
- (b) The legal system in a country can make or break the economy. Explain the ways in which the legal system helps the market economy remain vibrant. (4 marks)

**QUESTION FIVE (20 MARKS)**

- a) Most governments in Africa have embraced democracy as a form of government. Give a detailed explanation how democratic elections have led to negative effects on the economies of African countries. (8 marks)
  
- b) The state is seen as a none respecter of contractual agreements and property rights. Explain how the state violates contractual agreements. (6 marks)
  
- c) The civil law is seen as rigid and judges are seen as an extension of the civil law. Explain how the civil law is used in enhancing economic growth and development in a country. (6 marks)