



# **MACHAKOS UNIVERSITY**

**University Examinations for 2020/2021 Academic Year**

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ECONOMICS**

**FIRST YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR**

**BACHELOR OF ECONOMICS AND STATISTICS**

**BACHELOR OF ECONOMICS AND FINANCE**

**BACHELOR OF ECONOMICS**

**BACHELOR OF ARTS**

**EAE 313: PUBLIC FINANCE**

**DATE: 23/3/2021**

**TIME: 8.30-10.30 AM**

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## **INSTRUCTIONS:**

- (i) Answer question one (Compulsory) and any other two questions**
- (ii) Do not write on the question paper**
- (iii) Show your working clearly**

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

- a) Explain the differences and similarities between public finance and private finance (8 marks)
- b) Explain the characteristics of public goods and private goods (6 marks)
- c) Describe the efficiency principals of taxation (8 marks)
- d) Explain the effect of public debt burden on future generations (8 marks)

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

- a) Explain the functions of public finance in both developing and developed nations. (10 marks)
- b) Explain the causes of market failure and the ways government of Kenya can intervene to minimize them. (10 marks)

**QUESTION THREE (20 MARKS)**

- a) Discuss the effects Of Taxation on the following:
- i. Ability to work and save.
  - ii. Desire to work and save.
  - iii. The composition and pattern of production.
  - iv. distribution (10 marks)
- b) Explain the main techniques of debt management applied in your country. (10 marks)

**QUESTION FOUR (20 MARKS)**

- a) Explain tax incidence in the case of inelastic supply and elastic demand (8 marks)
- b) Explain the concept of free rider problem and its solutions (8 marks)
- c) Explain two theories that explain increase of public expenditure (6 marks)

**QUESTION FIVE (20 MARKS)**

- a) Graphical Illustrate the Supply and Demand Diagrams Showing the External Costs and benefits in an economy. (10 marks)
- b) Discuss the implications of externality in an economy. (10 marks)