



MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

SECOND YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS

EAE 201: ECONOMICS OF PUBLIC EXPENDITURE

DATE: 20/1/2021

TIME:2.00-4.00 PM

INSTRUCTIONS

Answer Question **ONE** and any other **TWO** questions

QUESTION ONE (COMPULSORY)

- a) When Pareto efficiency is not achieved in the market, market failure occurs. Using examples discuss the sources of market failure in your country. (10 Marks)
- b) Discuss the importance of public sector economics. (4 Marks)
- c) Discuss the marginal conditions for optimal resource allocation. (6 Marks)
- d) Discuss the canons of public expenditure. (10Marks)

QUESTION TWO

- a) Discuss the causes of government failure in your country. (10 Marks)
- b) Discuss the challenges faced in budgeting process in Kenya. (6 Marks)
- c) Discuss the key characteristics of a public good. (4 Marks)

QUESTION THREE

- a) Discuss the Arrows impossibility theorem explaining its criteria for collective decision making. (10 Marks)
- b) Define externality. Using diagrams discuss how externalities cause market inefficiency. What are possible solutions to externalities? (10 Marks)

QUESTION FOUR

Write brief notes on the following concepts

- a) Arrow's impossibility theorem (4 Marks)
- b) Adverse selection (4 Marks)
- c) Free rider problem (4 Marks)
- d) Moral hazard (4 Marks)
- e) Pareto inefficiency (4 Marks)

QUESTION FIVE

- a) The growth of public expenditure and public sector in developing countries is a major problem to many countries, whether developed or less developed. Discuss the causes of his growth. (10 Marks)
- b) Explain the rationale for Performance and Programme Budgeting System (PPBS). (10 Marks)