



MACHAKOS UNIVERSITY

University Examinations for 2021/2022 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ARTS (ECONOMICS)

BACHELOR OF COMMERCE

EAE 313: PUBLIC FINANCE

DATE:

TIME:

INSTRUCTIONS:

1. Answer question ONE and any other TWO questions
2. Question ONE Carries a total irregularity.
3. Do not write on question paper

QUESTION ONE (COMPULSORY)(30MARKS)

- a) Discuss the scope of public finance and explain its relationship with economics, political science and statistics. (8 marks)
- b) Explain the principle of maximum social advantage with the help of a diagram and state its practical problems. (8 marks)
- c) Distinguish between progressive and proportional taxes. Which one would you prefer and why? (6 marks)
- d) For the past few years most of the revenue generation has stagnated or declined although the country's GDP has not. Propose four causes of underperformance in revenue collection by counties in your country (8 marks)

QUESTION TWO (20 MARKS)

- a) County government in Kenya, has legislative powers just like national government. This allows county government the power to change some tax laws or the way public sector

employees are remunerated. Provide **five** examples of how county government in Kenya have increased taxes and charges or reduced expenditure in order to cope with reduced funding from higher levels of government. (10 marks)

- b) With the aid of graphical Illustration explain the Supply and Demand Diagrams Showing The External Costs and benefits (10 marks)

QUESTION THREE (20 MARKS)

- a) One of the challenges facing developing countries is how to finance budget deficit. The problem is further compounded by the fact that some alternative of financing the deficit might negatively impact on the country's economy. Explain four measures that a government could undertake to finance budget deficit. (8 marks)
- b) Explain tax incidence in the case of inelastic demand of a commodity with the aid of a diagram. (6 marks)
- d) Define market failure and explain its causes of in an economy (6 marks)

QUESTION FOUR (20 MARKS)

- a) During recent years, the global economic crisis has thrown a spotlight on different governments' attitudes to debt and borrowing. It is therefore important to understand opposing views on government borrowing, as well as the mechanisms of borrowing.

Required

- i) Explain the techniques of debt management used in your country (8 marks)
- ii) Briefly discuss how the external debt imposes burdens on the society (8 marks)
- b) Explain the functions of public finance in developing nations. (4 marks)

QUESTION FIVE (20 MARKS)

- a) Explain the effects of taxation on the following
- i) Ability to work and save (3 marks)
- ii) Desire to work and save (3 marks)
- iii) Composition and pattern of production (3 marks)
- iv) Distribution of income (3 marks)
- b) Distinguish between direct and indirect taxes. How do they deliver in their equity effects? (8 marks)