



# MACHAKOS UNIVERSITY

University Examinations for 2021/2022 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

DECEMBER SESSION EXAMINATION FOR

BACHELOR OF EDUCATION

EAE 313: PUBLIC FINANCE

**DATE: SCHOOL BASED**

**TIME:**

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**INSTRUCTIONS:**

Answer question **one** and any other **two** questions

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

- a) Explain the difference between the following terms as used in public finance.
- i) Private good and public good (2 marks)
  - ii) Revenue expenditure and capital expenditure (2 marks)
  - iii) Budget deficit and fiscal deficit (2 marks)
- b) A public budget is the financial plan for a specific period. Identify **five** objectives to be achieved through budgeting. (5 marks)
- c) State governments have fiscal responsibility. State and describe three main types of fiscal policies used by governments to influence the economic activities. (9 marks)
- d) Describe and justify the five major characteristics of a good tax system. (10 marks)

**QUESTION TWO (20 MARKS)**

- a) Explain six reasons to justify government intervention in the goods market. (12 marks)
- b) Our country Kenya is currently facing a serious budget deficit.
- i) Identify four possible causes of the deficit (4 marks)
  - ii) Suggest four ways in which the deficit can be reduced. (4 marks)

**QUESTION THREE (20 MARKS)**

- a) Critically explain the Hugh Dalton principle of maximum social advantage as the fundamental principle in public finance. (12 marks)
- b) Describe the economic effects of public expenditure. (8 marks)

**QUESTION FOUR (20 MARKS)**

- a) The concept of incidence of tax explains ultimate burden on taxation. Explain six main factors that influence incidence of tax. (8 marks)
- b) Using six factors, describe the functions of public finance in a developing state. (12 marks)

**QUESTION FIVE (20 MARKS)**

- a) Many countries are extensively using indirect taxes as a revenue source. Explain the role of indirect taxes in a developing country. (12 marks)
- b) The purpose of shifting tax is to escape the burden of taxation. Using an example in each case, describe the following processes:
- i. Backward shifting of tax (4 marks)
- ii. Forward shifting of tax (4 marks)