



# MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS

EAE 301 TAXATION ECONOMICS AND POLICY

DATE:

TIME:

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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
- (iv) Written material or electronic gadgets including mobile phones are not allowed in exam room.

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

- a) Using examples of types of taxes levied in your country, explain the conditions under which benefit tax criteria is feasible. (10 marks)
- b) Distinguish between the following terms
  - i.) Personal taxes and in rem taxes. (2 marks)
  - ii.) Statutory incidence and effective incidence of a tax. (2 marks)
  - iii.) Tax evasion and tax avoidance. (2 marks)
  - iv.) Vertical equity and horizontal equity in taxation. (2 marks)
  - v.) Tax burden and tax liability. (2 marks)
- c) Explain the characteristics of a good tax system. (10 marks)

### QUESTION TWO (20 MARKS)

- a) Distinguish between taxable capacity and tax effort. (4 marks)
- b) Explain how each of the following factors influence tax effort in developing countries.
  - i.) Share of agriculture in GDP. (2 marks)
  - ii.) Share of manufacturing. (2 marks)
  - iii.) Openness of the economy. (2 marks)

- c) Use the partial equilibrium approach to describe the effect of an increase in income taxation on labour supply. (10 marks)

**QUESTION THREE (20 MARKS)**

- a) Explain and illustrate excess burden of taxation. (5 marks)
- b) What are the limitations of partial equilibrium approach to the analysis of tax incidence. (6 marks)
- c) Explain how an increase in corporation tax would affect economic activity in a country. (9 marks)

**QUESTION FOUR (20 MARKS)**

- a) Explain the issues that motivate and shape tax reforms in developing countries. (12 marks)
- b) Citing appropriate examples, describe the causes of tax evasion in Kenya. (8 marks)

**QUESTION FIVE (20 MARKS)**

- a) Explain the concept of tax shifting. (5 marks)
- b) Elaborate on the factors necessary for breaking the debt vicious cycle. (5 marks)
- c) Explicate on the Canons of Taxation. (10 marks)