MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

SECOND YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

EAE 201: ECONOMICS OF PUBLIC EXPENDITURE

DATE: 3/12/2019   **TIME: 2.00-4.00 PM**

INSTRUCTIONS:

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

QUESTION ONE (30 MARKS) (COMPULSORY)

a)   According Arrow's Impossibility Theorem, in a democratic society, a collective decision-making rule should satisfy the some criteria: Discuss.   (8 marks)

b)   A budget maybe defined a financial plan, which outlines the major sources of revenue and how the money raised is to be used or shared amongst competing needs. Discuss principles of a good public budget.   (8 marks)

c)   Pareto outlines three marginal conditions for welfare maximization. Using a diagram discuss the efficiency in consumption.   (6 marks)

d)   Distinguish between the following terms commonly used in public sector economics

(8 marks)

   i.   First fundamental theorem and second fundamental theorem of welfare economics

   ii.   Local public good and pure public good

   iii. Capital and recurrent expenditure

   iv.   Production externality and consumption externality

QUESTION TWO (20 MARKS)

a) Government intervention causes a more inefficient allocation of goods and resources than would occur without that intervention.

    i.   Using relevant examples discuss the instances of government failure in your country.

        (10 marks)

    ii.   In your own view, can government failure be solved? Discuss.   (4 marks)

b) Explain any three theories of public expenditure you know.   (6 marks)

QUESTION THREE (20 MARKS)

a) Presence of externalities leads to sub-optimal outcomes in the market.

    i.   Using relevant examples and diagrams discuss how negative production externalities and positive consumption externalities cause market inefficiency.

        (8 marks)

    ii.   Discuss how you would correct the problem of externalities.   (4 marks)

b) Discuss the limitations of Cost Benefits Analysis (CBA) as a method of evaluating public expenditure projects**.**   (8 marks)

QUESTION FOUR (20 MARKS)

a) When the invisible hand theorem doesn't work government intervention is necessary. Discuss the rationale for government intervention in markets.   (10 marks)

b) Using diagrams discuss the concept of optimal provision of public good.   (5 marks)

c) Kenya has been experiencing huge public debts due to high growth of public expenditure**.** In your view what measures can be taken to control public expenditure growth   (5 marks)

QUESTION FIVE (20 MARKS)

Write brief notes on the following concepts used public sector economics

a) Adverse selection   (4 marks)

b) Median Voter Theory   (4 marks)

c) Free rider problem   (4 marks)

d) Theory of second best   (4 marks)

e) Performance and Programme Budgeting System (PPBS).   (4 marks)