



MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

EAE 313: PUBLIC FINANCE

DATE: 12/11/2020

TIME: 11:00 – 1:00 PM

INSTRUCTIONS:

Attempt question ONE and any other TWO questions

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Briefly define public finance and explain its scope (8 marks)
- b) Explain the differences between vertical and horizontal equity (6 marks)
- c) Distinguish between progressive and proportional taxes. Which one would you prefer and why? (6 marks)
- d) Explain the effects of public expenditure on the economy. (10 marks)

QUESTION TWO (20 MARKS)

- a) Explain causes of market failure and the its solutions in an economy (12 marks)
- b) Briefly discuss how the external debt imposes burdens on the society (8 marks)

QUESTION THREE (20 MARKS)

- a) Explain tax incidence in the case of inelastic supply and elastic demand with the aid of a diagram. (6 marks)
- b) Describe the efficiency principals of taxation (8 marks)
- d) Explain the meaning of externality and describe the types of externalities with examples (6 marks)

QUESTION FOUR (20 MARKS)

- a) Explain how to measure the taxable capacity of people (4 marks)
- b) Explain the functions of public finance in developing nations. (8 marks)
- c) Explain the theories that explain increase of public expenditure in the Kenyan economy . (8 marks)

QUESTION FIVE (20 MARKS)

- a) Describe the resource allocation in different types of economic systems (6 marks)
- b) Describe the role of public debt on economic development (6 marks)
- c) Budget experts are now warning that Kenya risks surpassing its Sh.9 trillion budget ceiling in the coming years as it continues to borrow heavily to finance the ever-ballooning budget deficits. Explain the techniques that can be used to manage their debt. (8 marks)