



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 ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

BACHELOR OF ECONOMICS AND STATISTICS

EAE 313: PUBLIC FINANCE

DATE: 27/10/2020

TIME: 8:30 – 10:30 AM

INSTRUCTIONS:

Attempt question **ONE** and any other **TWO** questions

QUESTION ONE (30 MARKS)

- a) Explain the differences and similarities between public finance and private finance. (8 marks)
- b) Explain the concept of free rider problem and its solutions (8 marks)
- c) Discuss the techniques of debt management in many developing countries. (8 marks)
- d) Distinguish between direct and indirect taxes. How do they deliver in their equity effects? (6 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)
- c) 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 how to determine the optimum output of social goods with the aid of a diagram (8 marks)
- c) Explain the theories that explain increase of public expenditure in an economy (8 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) Describe the role of public debt on economic development (8 marks)