



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 STATISTICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

EAE 301 TAXATION ECONOMICS AND POLICY

DATE: 12/11/2020

TIME: 2:00 – 4:00 PM

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) 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)
- b) Explain and illustrate excess burden of taxation. (5 marks)
- c) Elaborate on the limitations of partial equilibrium approach to the analysis of tax incidence. (6 marks)
- d) Explain how an increase in corporation tax would affect economic activity in a country. (9 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) Using examples of types of taxes levied in your country, explain the conditions under which benefit tax criteria is feasible. (10 marks)

QUESTION THREE (20 MARKS)

- a) Use the partial equilibrium approach to describe the effect of an increase in income taxation on labour supply. (10 marks)
- b) Explain the characteristics of a good tax system. (10 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) Discuss how the following factors determine the taxable capacity of a country
 - i) Distribution of income. (5 marks)
 - ii) Size of population. (5 marks)
 - iii) Political conditions. (5 marks)