



# MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

EAE 301 TAXATION ECONOMICS AND POLICY

DATE: 25/3/2021

TIME: 2.00-4.00 PM

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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 (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) What are 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 five 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) Clearly explain the concept of tax shifting. (8 marks)
- b) Interpret and explain the Tax concept mentioned in each of these statements:
- i. The Revenue Authority imposes 20% tax on the amount paid for Income tax by Senior Staff members and 15% tax on the amount paid for Income tax by Junior Staff. This leads to the senior staff reducing their total utility by 10% while junior staff utility reduces by 8%. (3 marks)
  - ii. Your salary increases by 10% but the amount collected as tax increases by 9%. (3 marks)
  - iii. The Revenue Authority imposes 18 % tax on the amount paid for Income tax by Senior Staff members and 12% tax on the amount paid for Income tax by Junior Staff. This leads to the senior staff reducing their total utility by 10% while junior staff utility also reduces by 10%. (3 marks)

iv. My salary increase by 10% but the amount collected as tax increases by 12%.

(3 marks)