



MACHAKOS UNIVERSITY

University Examinations for 2021/2022 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

EAE 404: ECONOMICS OF PUBLIC ENTERPRISES

DATE: 7/12/2021

TIME: 2.00-4.00 PM

INSTRUCTIONS:

(i) Answer question ONE and any other two questions

(ii) Show ALL your workings clearly

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Due to the global slowdown of economic activities fueled by the COVID-19 pandemic, the government of Kenya wants to cut down on expenditure for poorly performing public enterprises. If you were appointed to advise the government on how to go about this, explain five criteria that you would advise the government to use? (10 marks)
- b) Public enterprises intend to help in securing social justice for many people in the country. Giving examples, elaborate on vital ideological and social objectives aimed to be achieved through public enterprises. (8 marks)
- c) Machakos University intends to undertake three mutually exclusive projects whose cash flows are given by the following table. In addition, the three projects are expected to cost Kshs. 200,000 each and the discount rate is 10%.

YEAR	A	B	C
1	40,000	70,500	100,000
2	60,000	80,500	105,000
3	50,000	82,500	5,000
4	65,000	28,500	-
5	175,000	-	-

Rank the projects and advise the university on which project to undertake based on:

- i) The Net Present Value (NPV) Criterion (5 marks)
- ii) The Internal Rate of Return Criterion (IRR) (5 marks)
- iii) Is the ranking in (i) and (ii) consistent? Why or why not? (2 marks)

QUESTION TWO (20 MARKS)

- a) Explain why development planning in Kenya is said to be a compromise between the characteristics of planned and unplanned economics. (10 marks)
- b) Privatization is the transfer of ownership of state assets from the public bodies to private enterprise or provision of services from public to private enterprise. Different methods have been adopted in order to carry out this exercise. Explain these methods (10 marks)

QUESTION THREE (20 MARKS)

- a) In Kenya majority of the public enterprises are not performing well due to poor pricing practice of the enterprises. The pricing practice of any public corporation is quite important if success is guaranteed. Explain the main factors that are considered when carrying out this task (8 marks)
- b) Kenya like many other developing countries faces significant financing challenges in infrastructure and utilities in order attain vision 2030. This has called for the need of public private partnership. Explain the rationale of this partnership (6 marks)
- c) Explain the meaning of a departmental organization and its main attributes (6 marks)

QUESTION FOUR (20 MARKS)

- a) Most state corporations in Kenya are recently undergoing institutional reforms. This evaluation is being undertaken by National Treasury and Planning which is broadly assessing agencies projected cash flows for the period 2021/2022 to 2024/2025. The main reason being that most of them have continued to be a big drain on the national exchequer.
- i) Explain the main reasons that have triggered these institutional reforms (5 marks)
 - ii) Explain the main findings and recommendations from the state corporations evaluated (5 marks)
 - iii) State the main classifications of state corporations giving examples of each (3 marks)
- b) Using Net Present Value as project evaluation criteria has both advantages and disadvantages. Explain this statement (7 marks)

QUESTION FIVE (20 MARKS)

- a) How does social rate of discount used affect the number of projects that can be approved and their ranking in cost-benefit analysis (10 marks)
- b) Differentiate between Departmental Undertakings, Public Corporations and Government Companies using examples in Kenya. (10 marks)