# MACHAKOS UNIVERSITY

**University Examinations for 2018/2019 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: 24/4/2019** **TIME: 8:30 – 10:30 AM**

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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 (COMPULSORY)(30 MARKS)**

a) Differentiate the following terms: (10 marks)

i) Tax Burden and Excess Tax Burden

ii) Taxable Capacity and Tax Effort

iii) Equal Proportional Sacrifice and Equal absolute Sacrifice rules

iv) Tax evasion and tax avoidance

v) Benefit and ability to pay principle

b) Discuss any five factors that contribute to high tax evasion in developing countries (10 marks)

c) With reference to canons of a good taxation system compare and contrast sales and income tax . (10 marks)

**QUESTION TWO (20 MARKS)**

a) Define the term taxable capacity (2 marks)

b) Discuss how the following factors determine the taxable capacity of a country
   i) Distribution of income. (3 marks)
   ii) Size of population. (3 marks)
   iii) Political conditions. (3 marks)

c) With reference to Kenya elaborate why tax effort differs from the following sectors
   i) Agriculture (3 marks)
   ii) Rental housing (3 marks)
   iii) Manufacturing (3 marks)

**QUESTION THREE (20 MARKS)**

a) Suggest the appropriate tax reforms that Kenya tax authority has taken to mitigate tax evasion problem. (10 marks)

b) Derive a formula relating elasticity of tax price to income (5 marks)

c) Use the formula to show how it influences the tax rules structures (5 marks)

**QUESTION FOUR (20 MARKS)**

The demand and supply function of a commodity are given as follows:-

Qd = 240-2p, and Qs = -40 + 3p

The government imposes a unit tax of Sh 5 per unit. Required

i) The equilibrium price and quantity before tax (4 marks)
ii) The equilibrium price and quantity after the tax (6 marks)
iii) The size of excess burden created by the tax (5 marks)
iv) The distribution of tax burden between the buyer and supplier (5 marks)

**QUESTION FIVE (20 MARKS)**

a) State and explain the following rules for optimal taxation
   i) Inverse rule (4 marks)
   ii) Ramsey rule (4 marks)
   iii) Collet Hague rule (4 marks)

b) Using a diagram explain the effect of taxation on labour supply (8 marks)