



# MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

SECOND YEAR SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

EAE 201: ECONOMICS OF PUBLIC EXPENDITURE

DATE:

TIME:

---

## INSTRUCTIONS

Answer Question **ONE** and any other **TWO** questions

### **QUESTION ONE (COMPULSORY)**

- a) When Pareto efficiency is not achieved in the market, market failure occurs. Using examples discuss the sources of market failure in your country. (10 Marks)
- b) Discuss the importance of public sector economics. (4 Marks)
- c) Discuss the marginal conditions for optimal resource allocation. (6 Marks)
- d) Discuss the canons of public expenditure. (10Marks)

### **QUESTION TWO**

- a) Discuss the causes of government failure in your country. (10Marks)
- b) Discuss the challenges faced in budgeting process in Kenya. (6 Marks)
- c) Discuss the key characteristics of a public good. (4Marks)

### **QUESTION THREE**

- a) Discuss the Arrows impossibility theorem explaining its criteria for collective decision making. (10Marks)

- b) Define externality. Using diagrams discuss how externalities cause market inefficiency.  
What are possible solutions to externalities? (10Marks)

#### **QUESTION FOUR**

Write brief notes on the following concepts

- i. Arrow's impossibility theorem (4 Marks)
- ii. Adverse selection (4 Marks)
- iii. Free rider problem (4 Marks)
- iv. Moral hazard (4 Marks)
- v. Pareto inefficiency (4 Marks)

#### **QUESTION FIVE**

- a) The growth of public expenditure and public sector in developing countries is a major problem to many countries, whether developed or less developed. Discuss the causes of his growth. (10Marks)
- b) Explain the rationale for Performance and Programme Budgeting System (PPBS). (10Marks)