



MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

EAE 201: ECONOMICS OF PUBLIC EXPENDITURE

DATE: 26/7/2019

TIME: 2:00 – 4:00 PM

INSTRUCTIONS:

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

QUESTION ONE (COMPULSORY)

- a) Using examples discuss the sources of market failure in your country. (10 marks)
- b) Discuss the reason for increased public expenditure growth in your country. (10 marks)
- c) Discuss the importance of public sector economics. (4 marks)
- d) Discuss the marginal conditions for optimal resource allocation. (6 marks)

QUESTION TWO (20 MARKS)

- a) Discuss the instances of government failure. (10 marks)
- b) Discuss the determinants of Political Equilibrium. (10 marks)

QUESTION THREE (20 MARKS)

For each of the examples below, please answer the following:

- a) Does an externality exist? If so, classify the externality as positive/negative (or both).
- b) If an externality exists which of the government's tools are best suited to address the issue: quantity regulation, taxes/subsidies, tradable permits, or something else?
 - i) Carbon emissions from vehicles. (5 marks)
 - ii) Your upstairs neighbours throwing an awesome, but loud party. (5 marks)

- iii) Buying a car with added safety features that prevent the drivers/passengers' deaths in the event of an accident. (5 marks)
- iv) Bringing crying babies on a plane. (5 marks)

QUESTION FOUR (20 MARKS)

- a) Discuss using examples the causes of non-market failure in your country. (10 marks)
- b) 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. (10 marks)

QUESTION FIVE (20 MARKS)

- a) Discuss the Arrows impossibility theorem explaining it's criteria for collective decision making. (10 marks)
- b) Explain the rationale for Performance and Programme Budgeting System (PPBS). (10 marks)