



# MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SPECIAL/ SUPPLEMENTARY EXAMINATIONS FOR

BACHELOR OF ECONOMICS.

EAE 301 TAXATION ECONOMICS AND POLICY

DATE: 26/7/2019

TIME: 2:00 – 4:00 PM

---

**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 indirect 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 the 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) Explain the concept of tax shifting. (5 marks)
- b) The government is interested in taxing sugar in order to increase its tax revenue. The market is currently at equilibrium at a price of Ksh. 10 per kg and sales of 1000 kgs per month. Suppose the own price elasticity of demand at the equilibrium point is 0.1 and the own price elasticity of supply at this point is 0.2. Now the government announces the tax measure with the new market price to be maintained at Ksh. 15 per kg.
- Required:
- i.) Compute and show the suppliers and buyers tax burden. (5 marks)
  - ii.) How much revenue will the government obtain from the new tax measures? (5 marks)
  - iii.) Calculate the deadweight loss of the tax (excess burden of the tax). (5 marks)