



MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS

EAE 301 TAXATION ECONOMICS AND POLICY

DATE:

TIME:

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 in rem 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) Elaborate on 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) Discuss how the following factors determine the taxable capacity of a country
 - i. Distribution of income. (5 marks)
 - ii. Size of population. (5 marks)
 - iii. Political conditions. (5 marks)