



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

EAE 313: PUBLIC FINANCE

DATE: 26/9/2019

TIME: 11.00-1.00 PM

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Explain the concept of free rider problem and its solutions (10 marks)
- b) Explain the effects of public expenditure on the economy (10 marks)
- c) Explain the causes of market failure in an economy. (10 marks)

QUESTION TWO (20 MARKS)

- a) Explain how to determine the optimum output of social goods (8 marks)
- b) Explain the meaning of externality (2 marks)
- c) Describe negative externalities and give two examples (3 marks)
- d) Explain the measurement of taxable capacity (7 marks)

QUESTION THREE (20 MARKS)

- a) Explain tax incidence in the case of inelastic supply and elastic demand (5 marks)
- b) Describe the efficiency principals of taxation (8 marks)
- c) Explain the measurement of benefits and costs in public projects (7 marks)

QUESTION FOUR (20 MARKS)

- a) Explain how to measure the taxable capacity of people (6 marks)
- b) Explain the various types benefits and costs involved in public projects (8 marks)
- c) Explain the theories that explain increase of public expenditure (6 marks)

QUESTION FIVE (20 MARKS)

- a) Explain the various types benefits and costs involved in public projects (6 marks)
- b) Explain the effect of public debt burden on future generations (6 marks)
- c) Explain the techniques of debt management (8 marks)