MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BACHELOR OF EDUCATION

EAE 313: PUBLIC FINANCE

DATE: 24/4/2019 **TIME: 8:30 – 10:30 AM**

INSTRUCTIONS

- **(i)** **Answer question one (Compulsory) and any other two questions**
- **(ii)** **Do not write on the question paper**
- **(iii)** **Show your working clearly**

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Briefly explain the reasons why government should participate in economic activities (8 marks)

b) Briefly explain the budgetary policy objectives of the government and how they conflict with each other.? What policy instruments that are used during stabilization. (8 marks)

c) Briefly define the term market failure and explain its causes in an economy (8 marks)

d) Distinguish between the private goods and social goods (6 marks)

QUESTION TWO (20 MARKS)

a) With the help of diagram show how positive and negative externality lead to market failure. (10 marks)

b) Explain the various private and market mechanism for solving externality problems. (10 marks)

QUESTION THREE (20 MARKS)

a) What is the role of parliament in the budgetary process in Kenya? (10 marks)

b) Explain in details the zero base and performance budgeting procedure. (10 marks)

QUESTION FOUR (20 MARKS)

a) Giving examples in Kenya discuss the privatization process. (10 marks)

b) Explain the reasons why privatization is necessary. (10 marks)

QUESTION FIVE (20 MARKS)

a) Explain the theories of the growth of public expenditure (10 marks)

b) Discuss how public expenditure is used to solve macroeconomic problems (10 marks)