MACHAKOS UNIVERSITY

University Examinations for 2016/2017

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SECOND SEMESTER EXAMINATIONS FOR DEGREE IN

BACHELOR OF EDUCATION

EAE 313: PUBLIC FINANCE

DATE: 29/5/2017 **TIME: 8:30 – 10:30 AM**

INSTRUCTIONS:

Answer Question ONE and any other TWO questions. Question one carries 30 Marks and the other questions carry 20 Marks each.

QUESTION ONE (COMPULSORY)

a) With the use of suitable examples, give a clear distinction between the following economic terms;

(i) Divisible public projects and lump sum public projects
(ii) Pecuniary costs and real costs
(iii) Incremental budgeting and zero base budgeting
(iv) In Rem taxes and personal taxes
(v) Absolute Tax Incidence and differential Tax Incidence (10 marks)

b) Given a manufacturing industry with a demand function P= 40-Q and that MC=Q. If the government introduces a tax= 4.5Q. Calculate

i) The efficient level of production (2 marks)

ii) The equilibrium after tax (2 marks)

iii) The tax burden (3 marks)

iv) The excess tax burden (3 marks)

c) Machakos County Government intends to undertake three mutually exclusive projects whose cash flows are as follows;

Project	Year				
	0	1	2	3	4
A	(1000)	1200	0	0	0
B	(1361.1)	500	500	500	500
C	(1000)	1200	1500	0	0

Using a discount rate of 11%, advise the County Government on which project to undertake using;

i) Net Present Value (NPV) technique (5 marks)

ii) Internal Rate of Return (IRR) technique (5 marks)

QUESTION TWO (20 MARKS)

a) Clearly explain the major areas of conflict amongst co-ordination functions of the government in an economy. (9 marks)

b) With examples, give a distinction between the non-rivalness and non-excludability concepts of pure public goods. (5 marks)

c) Describe how the government may repay off its debt based on the following methods;

i) Repudiation of debt

ii) Serial Bond Redemption

iii) Capital levy (6 marks)

QUESTION THREE (20 MARKS)

a) With the help of a diagram, explain how the government uses Pigouvian tax to correct externalities, and give the four flaws of this type of tax. (12 marks)

b) Using proper equations, describe the four major ways in which size of the public sector can be determined. (8 marks)

QUESTION FOUR (20 MARKS)

a) Following the varying economic downswings and upturns, it is expected that government expenditure should increase over time. Nevertheless, this growth of public expenditure is limited by some factors. Discuss four of these factors in detail. (8 marks)

b) Using the circular flow of income diagram explain the various point where tax can be imposed and specify which tax. (12 marks)

QUESTION FIVE (20 MARKS)

a) The role of the government is usually very important towards efficient and equitable allocation of resources, especially in an economy composed of both private and public enterprises. Explain how this can be achieved using a well labelled diagram. (10 marks)

b) State four steps followed during implementation of performance budgeting by the government. (4 marks)

c) Discuss at least six requirements of a good tax system. (6 marks)