



# **MACHAKOS UNIVERSITY**

**University Examinations for 2022/2023 Academic Year**

**SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM**

**MANAGEMENT**

**DEPARTMENT OF ECONOMICS**

**THIRD YEAR FIRST SEMESTER EXAMINATION FOR**

**BACHELOR OF ECONOMICS**

**EAE313: PUBLIC FINANCE**

**DATE:**

**TIME:**

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**INSTRUCTIONS: Answer Question ONE and any other THREE questions**

**QUESTION ONE (COMPULSORY)**

- 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)
- d) Discuss the various market interventions which are used by government to resolve externalities (6 marks)
- e) Analyze the case for and against imposing excessive taxes or borrowing heavily(4 marks)

**QUESTION TWO (20 MARKS)**

- 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)

### 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) When governments run budget deficits over a long period of time, they create unsustainable public debt through their internal and external borrowing. Critically evaluate the impact of public debt on the economic performance of a country (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)