

**MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATIONS**

**2016/2017 ACADEMIC YEAR**

**THIRD YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF ARTS (ECONOMICS)**

**COURSE CODE: ECO 323**

**COURSE TITLE: PUBLIC FINANCE**

**DATE: 13TH JULY, 2017 TIME: 1100 – 1300HRS**

**INSTRUCTIONS TO CANDIDATES**

Answer Question **ONE** and any other **three** questions

*This paper consists of* ***Three (3)*** *printed pages. Please turn over.*

# QUESTION 1

1. The government of Kenya intends to undertake the following 2 mutually exclusive projects (P1 and P2). The table below gives their cash flows and initial costs. Use the Net Present Value technique and the Internal rate of return techniques to decide which project should be undertaken. (Use a required rate of return of 12 per cent)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Project | Yearly Cash Flows (USD Millions) | | | | | |
| 0 | 1 | 2 | 3 | 4 | 5 |
| P1 | (1,444) | 350 | 540 | 450 | 250 | 205 |
| P2 | (1,361) | 450 | 650 | 560 | 480 | 223 |

1. **marks)**

|  |  |
| --- | --- |
| 1. Discuss 5 rationales for government intervention in private sector activities | 1. **marks** |
|  |  |
| 1. State five constraints to the government expenditure through debt financing | **5 marks** |

# QUESTION 2

|  |  |
| --- | --- |
| a) Discuss five cannons of a good tax system (10 marks) | **10 marks** |
| b) Give 5 differences between social goods and private goods | **5 marks** |

# QUESTION 3

|  |  |
| --- | --- |
| 1. Discuss 4 instruments of fiscal distribution policy | **8 marks** |
| 1. Using a well-labelled diagram, demonstrate the how market failure would result if the agents engage in uncompetitive practices. | **7 marks** |

# QUESTION 4

|  |  |
| --- | --- |
| 1. Define the term externality | **2 marks** |
| 1. Discuss 5 ways in which externalities can be corrected | **10 marks** |
| 1. Give 3 critiques to the Pigouvian tax system as a way forcing producers to produce socially optimal output levels. | **3 marks** |

# QUESTION 5

1. Differentiate between the following terms

|  |  |  |
| --- | --- | --- |
| 1. In-rem taxes and personal taxes 2. Callable public debt and redeemable public debts 3. Benefit principal to tax equity and Ability-to-Pay principal to tax equity | **6 marks** | |
| 1. Use a well-labeled diagram to illustrate the consequence on tax incidence of imposing a unit tax on a commodity. | | **7 marks** |

|  |  |
| --- | --- |
| 1. Explain 2 factors that would affect the incidence of a tax | **2 marks** |

**//END**