

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: ARE 314**

**COURSE TITLE: ECONOMICS OF TAXATION                                 THEORY AND POLICY**

**DATE: 7TH JULY, 2017 TIME: 1100 – 1300HRS**

**INSTRUCTIONS TO CANDIDATES**

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

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

**QUESTION 1**

1. Differentiate the following terms as used in the economics of taxation theory and policy
2. Horizontal equity and vertical equity
3. In-rem and direct taxes
4. Tax evasion and tax avoidance
5. Marketable debt and non-marketable debt

(**8 marks**)

b) The government is interested in taxing sugar in order to increase its tax revenue. The market is currently at equilibrium at a price of Ksh. 10 per kg and sales of 1000 kgs per month. Suppose that own price elasticity of demand at the equilibrium point is 0.1 and the own price elasticity of supply at this point is 0.2. The government announces that the tax measure with the new market price to be maintained at Ksh. 15 per kg.

Required

1. Compute and show the suppliers and buyers tax burden. (**4 marks**)
2. How much will the government get from the new tax measure? (**1 mark**)
3. Calculate the deadweight loss of the tax (excess burden of the tax) (**2marks**)
4. c) Explain 5 challenges that are associated with the Benefit Principle approach to equity measurement. (**10marks**)

**QUESTION 2**

1. State and explain 5 factors that determine the taxable capacity of a country (**10marks**)
2. What factors determine the effectiveness of tax incidence in a tax jurisdiction (**5marks**)

**QUESTION 3**

1. With a well-labeled diagram illustrate the Indifference curve approach to measuring the burden of tax. (**9marks**)
2. Using the case of your country, Identify the various ways in which people commit tax fraud. (**6marks**)

**QUESTION 4**

1. With an aid of a well-labeled diagram illustrate the Effect of imposing a unit tax on a commodity. Assume the commodity is a normal good. (**9marks**)
2. With an example of your country, explain the motivations that the government would have in undertaking tax reforms. (**6marks**)

**QUESTION 5**

1. Explain the factors that are necessary for breaking the debt vicious cycle in a country. (**10marks**)
2. What are the special economic problems of Developing countries that affect tax reforms? (**5marks**)

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