



MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

FOURTH YEAR FIRST SEMESTER EXAMINATIONS FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINSTRATION WITH INFORMATION TECHNOLOGY

CITY CAMPUS – EVENING

AEC 402: PUBLIC FINANCE AND FISCAL POLICY

Date: 28th November, 2016

Time: 5.30 - 8.30 pm

INSTRUCTIONS:

- Answer question ONE and any other TWO questions.
- Question ONE carries 30 marks and the rest 20 marks each.
- Marks will be awarded for being neat, clear and use of relevant illustrations.



QUESTION ONE

- (a) The government participation in an economy is due to market failures. Discuss (15marks)
- (b) Explain the constitution of a sound tax design that would result in the maximization of public revenue. (10marks)

QUESTION TWO

- (a) Explain Pareto efficiency condition and illustrate with relevant diagrams (10marks)
- (b) What are the conditions that constitute Arrow Impossibility Theorem (5marks)

QUESTION THREE

- (a) Discuss the methods of prioritizing public goods and services in a democratic society like Kenya (10marks)
- (b) Using the IS-LM framework explain how the government can pursue fiscal policy to influence the performance of an economy. Illustrate with relevant diagrams (5marks)

QUESTION FOUR

- (a) What is a national budget? What are its main functions in the development of an economy? (10marks)
- (b) Explain the characteristic of good tax that would be preferred by the citizens of a country (5marks)

QUESTION FIVE

Discuss economic justification for foreign aid using a four gap model (15marks)

QUESTION SIX

Discuss the tenets of a good and prudent tax administration that would result in efficiency and maximization of government revenue (15marks)