



MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

FIRST YEAR SECOND SEMESTER EXAMINATIONS FOR THE DEGREE OF MASTER OF ARTS IN ECONOMICS

CITY CAMPUS

AEC 814: PUBLIC FINANCE

Date: 10th December, 2016

Time: 2.00 - 5.00 pm

INSTRUCTIONS:

- Answer ANY FOUR questions.
- All questions carry equal marks.

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QUESTION ONE

The arguments for public finance is that misallocation of funds...

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The arguments for public finance is that misallocation of resources will arise if provision of public goods and services is left to the private sector alone. Discuss (15 marks)

QUESTION TWO

Taxation is believed to be beneficial to the public but it may be a cause of economic inefficiency. explain (15 marks)

QUESTION THREE

A general ad valorem tax equation is $P^d = (1+t)P^s$ while an Ad rem general tax equation is $P^d = P^s + T$. Where P^d is demand price and P^s the supply price. Suppose market equilibrium price of cigarettes is 60 cents and the equilibrium quantity sold; $Q_e = 500$ units. A tax of $T = 15$ cents is introduced which contracts the equilibrium quantity to Q_1 . Using own price elasticity of demand $\eta^d = -1$ and own price elasticity of supply $\epsilon^s = 2$. (15 marks)

Determine;

- i. Tax revenue
- ii. The Dead Weight Loss (DWL)
- iii. Tax incidence by consumers and by producers

QUESTION FOUR

With reference to; Wagner's Hypothesis and Peacock-Wiseman Hypothesis discuss the reasons for recent growth of Public Expenditure (15 marks).

QUESTION FIVE

Explain the economic considerations for an individual or institution who is considering lending to the government (15 marks).

QUESTION SIX

a) By use of

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- a) By use of relevant illustration, explain the 'the no Ponzi condition' in the intertemporal budget balance.(5 marks)
- b) Examine suitability of financing government budget through taxation or Bond finance (10 marks)