KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF ECONOMICS

**EAE 313: ECONOMICS OF PUBLIC FINANCE**

**DATE: Tuesday, 6th February 2018** **TIME: 4.30 p.m. - 6.30 p.m.**

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**INSTRUCTIONS:**

Answer question **ONE** and any other **TWO** questions

**QUESTION ONE**

(a) Kenyatta University Enterprises Company has a cost function represented by $TC = 400 + Q^{0.6}$ and it faces a perfectly competitive price of Shs. 20 for its output.

**Required:**

(i) Calculate the company's competitive output level (3 marks)

(ii) Given that the company is exerting a negative externality and its total social cost of production is estimated to be $TSC = Q^{0.4}$. If market price remains the same at Shs. 20, calculate the socially optimal level of production for ABC Ltd Company. (3 marks)

(iii) If the government imposes an excise tax to bring about optimal level of production calculate the level of tax to be imposed in such a case (3 marks)

(iv) How much tax revenue would the government raise in this situation from this Company? (3 marks)

(b) Using an illustration, explain regulation as a public response (mechanism) to externality (6 marks)

(c) Explain with help of examples, any four canons of a good budget (4 marks)

(d) Using diagram, explain the model of efficient allocation of public goods (8 marks)

## QUESTION TWO

(a) With the help of appropriate policies discuss the budgetary functions of the government (12 marks)

(b) Explain how the following techniques are applied in the preparation of the budget for the government

(i) Zero based budgeting (4 marks)

(ii) Performance and programme budgeting (4 marks)

## QUESTION THREE

Tax incidences are majorly affected by the elasticity of demand and elasticity of supply. Using the partial equilibrium illustrate the tax incidence of a unit tax when

(a) (i) Demand curve and supply are fairly elastic (4 marks)

(ii) When demand curve is perfectly elastic and supply curve is fairly elastic (4 marks)

(iii) When supply curve is perfectly inelastic and demand curve is fairly elastic(4 marks)

(b) Discuss any four factors that affect the shifting of tax burden (8 marks)

## QUESTION FOUR

The government is planning the construct a motor way connecting two busy towns in the county of Nairobi. The planner has consulted you as a specialist in the evaluation of public projects. identify the following benefits and cost and indicate their measurements

(i) Direct benefit and costs (5 marks)

(ii) Indirect benefit and costs (5 marks)

(iii) Tangible benefits and costs (5 marks)

(iv) Intangible benefits and costs (5 marks)

## QUESTION FIVE

(a) Explain any FIVE determinants of public sector borrowing in Kenya (10 marks)

(b) Explain any FIVE methods that a government can use to repay its debts (10 marks)