KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF ECONOMICS AND FINANCE

EAE 404: ECONOMICS OF PUBLIC ENTERPRISES

DATE: Wednesday, 22nd November, 2017 TIME: 8.00 a.m. - 10.00 a.m.

INSTRUCTIONS:

i) Answer question **ONE** and any other **TWO** questions.

ii) Do not write on the question paper.

iii) Show your working clearly.

QUESTION ONE - (30 MARKS)

a) A company is considering two mutually exclusive projects requiring an initial cash outlay of Sh.10,000 each and with a useful life of 5 years. The company required rate of return is 10% and the appropriate corporate tax rate is 50%. The projects will be depreciated on the straight line basis. The before depreciation and taxes cashflows expected to be generated by the projects are as follows:

YEAR 1	1	2	3	4	5
Project A	Sh. 4,000	4,000	4,000	4,000	4,000
Project B	Sh.6,000	3,000	2,000	5,000	5,000

Required:

i) Calculate the net present value for each project. (6 marks)

ii) Which projected should be accepted? Why? (2 marks)

b) Briefly explain five reasons that the Government may use for the need for the establishment of public enterprises in Kenya. (10 marks)

c) "The policy of privatization of public enterprises has had mixed effects on economic development of most African countries". Critically analyze this statement. (12 marks)

QUESTION TWO (20 MARKS)

a) The relationship between the government and public enterprises is of a Principal-Agent type. Explain five problem of this undertaking. (10 marks)

b) Even with the absorption of huge public funds, public enterprises have not yielded a good conduct of investible surplus. Justify this statement. (10 marks)

QUESTION THREE (20 MARKS)

a) With aid of relevant examples, discuss how elasticity is used to determine the prices adopted by public enterprises. (6 marks)

b) While clearly giving the basis of difference, briefly explain four differences between a public sector enterprise and a private sector enterprise. (8marks)

c) Briefly explain six advantages that statutory corporations have over other forms of public enterprises. (6 marks)

QUESTION FOUR (20 MARKS)

a) Public enterprises need to be efficient in their delivery of services and so there is a need for their evaluation of Efficiency. Briefly discuss five ways in which this evaluation can be done. (10 marks)

b) Critically analyze any five major problems of public enterprises in Kenya. (10 marks)

QUESTION FIVE (20 MARKS)

a) Briefly explain five factors that may be considered when an enterprise is to determine its price policy. (10 marks)

b) For years, many public enterprises have continued to be a big drain on the national exchequer. Discuss any five micro-level reasons that economists have used to advocate for the public sector reforms. (10 marks)