KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF ECONOMICS & FINANCE

EAE 404: ECONOMICS OF PUBLIC ENTERPRISES

DATE: WEDNESDAY 17TH MAY 2017 **TIME: 4.30 P.M. - 6.30 P.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) Give two reasons why a Government may decide to set up joint enterprises with the private sector. **(4 Marks)**

b) Differentiate between the Compulsory cost of service principle and Voluntary Price Principle **(6 Marks)**

c) Explain five economic objectives and five social objectives of establishing public enterprises **(10 Marks)**

d) You have been given the following information on net Benefits for four projects.

Project	Year				
	0	1	2	3	4
A	(1000)	1200	0	0	0
B	(1361.1)	500	500	500	500
C	(1000)	1200	1500	0	0
D	(2000)	1000	0	0	0

Required

Assuming an interest rate of 10%, evaluate the above projects using NPV and IRR criteria. **(10 Marks)**

QUESTION TWO (20 MARKS)

a) What factors are to be considered when an enterprise is to determine its price policy? **(5 Marks)**

b) Differentiate between Departmental Undertakings, Public Corporations and Government Companies. **(15 marks)**

QUESTION THREE (20 MARKS)

a) Explain the reasons for public enterprise reforms. **(8 Marks)**

b) Explain five (5) pricing policies that are used by public enterprises. **(12 Marks)**

QUESTION FOUR (20 MARKS)

a) What is cost-benefit analysis? **(4 Marks)**

b) "A public enterprise Performance can be evaluated based on Profitability." However, some of them incur heavy losses. Explain the reasons that may cause public sector losses.

(6 Marks)

c) Outline five sources of finance for public enterprises. **(10 marks)**

QUESTION FIVE (20 MARKS)

a) Define a Public enterprise **(2 Marks)**

b) Discuss principal-agent relationship of public enterprise **(3.Marks)**

c) Discuss the role of government in a capitalist system **(6 Marks)**

d) Explain the following concepts as applied in economics of public enterprises;

i) Nationalization **(3 Marks)**

ii) privatization **(3 Marks)**

iii) Public-private partnership **(3 Marks)**

****