KENYATTA UNIVERSITY

SCHOOL OF ECONOMICS

DEPARTMENT OF APPLIED ECONOMICS

SEMESTER III, 2017/2018 ACADEMIC YEAR

EAE 301: TAXATION ECONOMICS AND POLICY CAT

DATE 2018 **TIME: ONE HOUR**

INSTRUCTIONS:

(i) Answer all questions
(ii) Do not write the question paper
(iii) Show your working clearly

QUESTION ONE

You are given the following information about the market for beer.

Market demand = 400-4Q

Market supply: P = 4Q

(i) Find the equilibrium price and quantity in this market (4 marks)

(ii) What is the value of consumer and producer surplus in this market (4 marks)

(iii) Suppose that the government decides to impose an excise tax of $80 per motorcycle on producers in this market. Given the tax describe, what will be the tax incidence on consumers and producer? (6 marks)

QUESTION TWO

Explain any five factors to be considered by the government when deciding whether to use tax or to borrow when in need of raising a specific amount of money to finance a development project (10 marks)

QUESTION THREE

The taxable capacity of a country depends on several factors. Briefly explain FOUR of such factors. (6 marks)