moderated
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KENYATTA UNIVERSITY

SCHOOL OF ECONOMICS

DEPARTMENT OF APPLIED ECONOMICS

SECOND SEMESTER, 2019/2020 ACADEMIC YEAR

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF ECONOMICS, ECONOMICS AND FINANCE AND ECONOMICS AND STATISTICS.

EAE 404: ECONOMICS OF PUBLIC ENTERPRISES

INSTRUCTIONS: Answer question ONE (compulsory) and any other TWO questions. Question one carries 30 marks and the rest carry 20 marks each.

QUESTION ONE

a) XYZ public enterprise is contemplating to dispose off its manufacturing plant in Uganda. It has an offer of $10,000million for the property from firm of ABC Britain. But FGH Company from Germany has offered XYZ $11,424. However, the second offer is to be paid a year from today. The two purchasers are genuine and are financially stable. Banks' interest rate is at 12 per cent per annum. Demonstrate clearly which offer should XYZ take. **(6marks)**

b) Using examples, explain the Internal Rate of Return criteria of choosing projects for investment in public enterprises in your own country. **(6marks)**

c) Public corporation is an autonomous commercial organization established by the government. Citing various examples, explain some of the properties of this establishment in Kenya. **(8marks)**

d) Public enterprises intend to help in securing social justice for many people in the country. Giving examples, elaborate on vital ideological and social objectives aimed to be achieved through public enterprises. **(10 marks)**

QUESTION TWO

a) The need to have public undertakings can be justified on a number of grounds. Explain five rationale for Public enterprises in Kenya citing examples where possible

(10 Marks)

b) The Kenyan government has engaged in various Private Public partnerships (PPPs). Discuss any five PPPs in your country and their importance. **(10 Marks)**

QUESTION THREE

a) Public enterprises are not free from difficulties. They have to work under certain limitations such that performance wise their rating is sufficiently low. Explain five problems/challenges that public enterprises face that inhibit their growth and development. **(10 marks)**

b) Explain the reasons why marginal costing is the most ideal social pricing rule.

(5 marks)

c) Explain the meaning of privatization and the case for privatization. **(5 marks)**

QUESTION FOUR

a) The performance of public sector undertakings can be assessed on the basis of a number of criteria. Explain five criteria for the assessment of the performance of public enterprises.

(10 marks)

b) Discuss principal-agent relationship of public enterprises. **(5 marks)**

c) Explain ways in which government intervene in price fixation of public enterprises.

(5 marks)

QUESTION FIVE

a) Pricing policy for public enterprise is a difficult task and a number of factors have to be taken into account before the pricing of a public undertaking is decided. Explain these factors.

(10 marks)

b) Giving specific examples in Kenya Justify the need for reforms of public enterprises.

(10 marks)