KENYATTA UNIVERSITY

SECOND SEMESTER 2019/2020 EXAMINATIONS
EAE 201 ECONOMICS OF PUBLIC EXPENDITURE
Attempt question 1 and any other two questions

Question 1

(a) A certain agricultural firm has the immense demand function P = 30-Q and marginal cost of MC=Q. Suppose soil erosion results in the marginal social cost of mc=3.5Q

Required

(i) Competition equilibrium price and quantity **(4marks)**
(ii) Social price and quantity **(4 marks)**
(iii) Corrective tax per unit **(3 marks)**

(b) There are three consumers of a public good. The demands for consumers are as follows:-
P1 = 50-G, P2 = 110 –G, P3= 150 – G
Where G measures the number of units of the good and Pi the price.

Required

(i) What is the optimal level of provision of the public good? Illustrate your answer with a diagram **(4 marks)**
(ii) Explain why the public good is not supplied at all by the market **(6 marks)**

(c) In reference to Kenya explain the following public expenditure growth

(i) Keynesian **(3marks)**
(ii) Wiseman and Peacok **(3marks)**
(iii) Wagner **(3marks)**

Question 2

(a) Distinguish between majority voting and median voter mechanisms of public choice **(6 marks)**

(b) Consider the ballot in the table below

	Preferences		
Vote	A Low level	B Moderate level	C High Level
John	3	2	1
Joseph	1	3	2
Jacob	2	1	3

Required

Determine the winner of the election were held between

(i) A and B **(3 marks)**
(ii) B and C **(3 marks)**
(iii) A and C **(3 marks)**

Draw the preference and decide whether it is possible to know the winner using majority voting in the above case **(5 marks)**

Question 3

(a) Discuss the importance of government participation in social insurance and assistance to the society **(10 marks)**

(b) Explain how cash and in-kind transfers programs can reduce the incentive to work by recipients **(10 marks)**