Moderated 28/01/2020

Externally Moderated 03/02/2020

KENYATTA UNIVERSITY
UNIVERSITY EXAMINATIONS 2019/2020
DIGITAL SCHOOL OF VIRTUAL & OPEN LEARNING
EXAMINATIONS FOR THE DEGREE OF BACHELOR OF ECONOMICS
EAE 301: TAXATION ECONOMICS AND POLICY

DATE: **TIME:**

***Instructions*: Answer Question ONE and ANY other TWO Questions.**

QUESTION ONE (30 MARKS)

a) The state uses taxation as the main source of revenue to fund its activities for collective satisfaction of all the citizens wants. However, taxation policy can be a useful instrument for the realization of other objectives. Briefly explain five such objectives. (5 Marks)

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

Market Demand: $P = 400 - 4Q$

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 described, what will be the tax incidence on consumers and producer? (6 marks
- **iv.** What is the value of the deadweight loss from the tax? (3 marks)
- **v.** What is the loss in producer surplus from the imposition of the excise tax described in part (iii)? (4 marks)

c) Differentiate between Tax Effort and Taxable Capacity (4 Marks)

QUESTION TWO (20 MARKS)

a) Clearly distinguish between tax avoidance and tax evasion (8 marks) Too many marks allocated for (a

b) What are the consequences of tax evasion? (2 marks)

c) With proper illustration and using a simple tax evasion model, discuss the factors influencing individual's tax evasion decision (10 marks)

QUESTION THREE (20 MARKS)

a) Using relevant examples, explain any five challenges faced in Implementing the Benefit Principle as an approach to tax equity (10 Marks)

b) Using well labelled diagrams explain the Equal proportional sacrifice ,Equal marginal sacrifice and equal absolute sacrifice of taxation (10 Marks)

QUESTION FOUR (20 MARKS)

a) What are the principal determinants of tax revenue/tax collection performance across developing countries? (10 marks)

b) Discuss any five factors that contribute to high tax evasion in developing countries suggesting an appropriate tax reform that can be undertaken by tax authority to hedge itself. (10 marks)

QUESTION FIVE (20 MARKS)

a) Using relevant country experience, explain the range of considerations in evaluating tax reform proposals. see Q 4 (b) (10 marks)

b) What are some of the pros and cons of fiscal decentralization? (10 marks)

See question 2 on tax evasion: Set a different question