Muthoni [illegible]
Jan 22, 2020

KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2019/2020

Externally moderated [illegible]

SECOND SEMESTER EXAMINATIONS FOR THE DOCTOR OF PHILOSOPHY DEGREE IN ECONOMICS

EAE 914: PUBLIC SECTOR ECONOMICS II

Time: 09.00 - 12.00 GMT **Date: APRIL, 2020**

INSTRUCTIONS:
Answer a total of FOUR questions: All questions are compulsory. Each question carries 15 marks.

Question 1

(i) ~~(a)~~ Discuss the constraints to revenue mobilization in Africa and their policy implications. (10 MKS)
[15 marks]

(ii) set (b) and reallocate marks

Question 2

(a) Explain using examples from the African continent at least four structural factors which contribute to large budget deficits in an economy. **(8 marks)**

(b) Using the Harberger (1964) formula, the excess burden of a selective excise tax on a commodity X is given by the formula:

$$EB_X = \frac{1}{2} e_X P_X X t_X^2$$

Where e_x = price elasticity of the compensated demand for good X

P_x = Price of good X

X = Quantity of the good X consumed

t_x = The rate of tax on good X

And the excess burden of tax on commodity Y is:

$$EB_y = \frac{1}{2} e_y P_y Y t_y^2$$

Assume that the total revenue to be raised is R which is equal to the tax raised on good X (i.e. $P_x X t_x$) and the tax raised on good Y (i.e $P_y Y t_y$).

State and derive the following rules:

(i) The Ramsey Rule **[4 marks]**
(ii) The Elasticity Rule **[3 marks]**

Question 3

(a) Using Porterba-Summer views, discuss how dividends taxes affect corporate investment ~~behavoiur~~ in an economy. **(8 marks)**

behaviour

b) Using examples from African countries, explain the common problems with revenue assignments in a devolved governance system **[10 marks]**

Question 4

(a) Explain considerations a policymaker should put in mind when evaluating a tax reform proposal. **(8 marks)**

(b) "*In African countries, the design of an effective and efficient tax system faces formidable challenges*" Discuss this statement using examples from your own country. **(7 marks)**

Set (c) and reallocate marks