MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS
2020/2021 ACADEMIC YEAR
FOURTH YEAR SECOND SEMESTER

SCHOOL OF BUSINESS AND ECONOMICS
BACHELOR OF SCIENCE IN ECONOMICS &
STATISTICS AND BACHELOR OF SCIENCE IN
FINANCIAL ECONOMICS

COURSE CODE: ECO 4205
COURSE TITLE: PUBLIC FINANCE & FISCAL POLICY

DATE: 8TH OCTOBER, 2021   **TIME**: 0830-1030 HRS

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION **ONE** AND ANY OTHER **THREE** QUESTIONS

QUESTION ONE

a). Consider an economy described by the following functions in billions shillings.

$Y = C+I+G$

$C = 100=0.5Y_D$

$I = 40+0.1Y$

$G = 100$

$Y_D = Y - T$

    i.   Calculate the equilibrium level of income   (2mks)

    ii.   Find the government budget at equilibrium income   (3mks)

    iii.   Calculate the value of government expenditure multiplier (3mks)

    iv.   Show that the change in income generated by decreasing taxes by Kshs. 10 billion is less than that which will be achieved by increasing government expenditure by the same amount. Explain why it is so.   (5mks)

b). Explain the objectives of fiscal policy in the Kenyan economy context.   (5mks)

c). Tax is not necessarily evil. Discuss   (3mks)

d) Discuss why Ricardian equivalence proposition is not likely to hold exactly   (4mks)

QUESTION TWO

a) Suppose that income tax law exempts income under kshs.8,000 from tax , taxes income between kshs. 8,000 and 20,000 at 25% rate, and taxes income greater than kshs.20,000 at a 30% rate.

i) Find the average tax rate and marginal tax rate for someone earning earning kshs.16,000 and for someone earning kshs.30,000.   (5marks)

ii)The tax law is changed so that income of less than kshs.6,000 is untaxed,   income from kshs.6,000 to kshs.20,000 is taxed at 20% and income of more than kshs.20,000 continues to be taxed at 30%. Repeat as part(i) above and interpret the result.   (3Marks)

iii)How will the tax law change in part(ii) affect the labour supply of the person earning kshs.30,000?   (3marks)

QUESTION THREE

a)i .Explain how government debt is related to the government deficit. (3marks)

ii)Discuss what factors that contribute to a high growth rate of the debt-GDP ratio.(3marks)

b). Discuss the Canons of taxation according to Dalton. (4marks)

c). Explain the principles of public expenditure. (5marks)

QUESTION FOUR

a).Use examples and illustrations to differentiate between social goods and private goods. (4marks)

b). Discuss the factors that influence taxable capacity in LDCs. (4marks)

c). Kenya's public debt has been growing at alarming rate annually and is the concern to policy makers and the public in general. Discuss main causes of the debt and its effects to the economy. (4marks)

d) i. Describe Peacock- Wiseman hypothesis. How is it applicable to less developing countries? (3marks)

QUESTION FIVE

a). Explain the demerits and merits on the following:-

  i.   Direct taxes (2marks)
  ii.   Progressive taxation (2marks)

b). Discuss the functions of the following bodies. (6marks)

  i.   Budget controller
  ii.   Parliamentary Account Committees
  iii. Salary Commission

c). Discuss the following concepts as used in public finance. (5marks)

  i.   Fiscal drag
  ii.   Impotence of fiscal policy
  iii. Incidence of tax and impact

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