



# **MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATIONS  
2022/2023 ACADEMIC YEAR  
THIRD YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS  
BACHELOR OF SCIENCES IN FINANCIAL ECONOMICS**

**COURSE CODE: ECF 3104-1**

**COURSE TITLE:ECONOMICSOF TAXATION**

**DATE: 6<sup>TH</sup> DECEMBER, 2022**

**TIME: 1430-1630**

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## **Instructions**

Answer question **ONE** and any other **TWO**

*This paper consists of **Four (4)** printed pages. Please turn over.*

## **QUESTION 1**

- a) Define the term Excess Tax Burden **(1 mark)**

The government of Kenya is planning to tax a petroleum jelly brand in order to raise tax revenue. The market is currently at equilibrium at a price of KES. 200 per kilogram and sales of 100 tons per year. Suppose the own price elasticity of demand for the jelly at the equilibrium point is  $\frac{1}{10}$  and the own price elasticity of supply at this point is  $\frac{1}{5}$ . The government announces that the tax measure will maintain the new market price to be maintained at KES 250 per kilogram.

- i) Compute the seller and buyer burdens of this taxation plan **(5 marks)**
  - ii) How much will the government raise in tax revenue under this new tax measure? **(2 marks)**
  - iii) Calculate the deadweight loss of the tax. **(2 marks)**
- b) Explain the following canons of taxation:
- i) Equity **(4 marks)**
  - ii) Buoyancy
- c) Explain any three (3) strategies which a government could use to minimize tax evasion and avoidance. **(6 marks)**

## **QUESTION 2**

- a) Explain any five (5) sources of pressure for changes in the tax system of your country **(10 marks)**
- b) Define the following terms **(5 marks)**
- i) Federal system
- ii) Unitary state
- iii) Centralization ratio
- iv) Tax competition
- v) Tax harmonization

## **QUESTION 3**

- a) What does the taxable capacity of a country mean? **(1 mark)**
- b) Explain any three (3) factors that can increase the taxable capacity of a country **(6 marks)**
- a) Using the situation of your country, explain any four (4) causes of debt crisis in developing countries **(8 marks)**

## **QUESTION 4**

- a) With the aid of well-labeled diagrams, discuss the interpretations of the equal sacrifice rule:
  - i) Equal absolute sacrifice **(5 marks)**
  - ii) Equal proportional sacrifice **(5 marks)**
- b) With the aid of a diagram, explain how a unit tax imposed on a good influences the incidence of the tax. **(5 marks)**