



(University of Choice)

**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

MAIN EXAMINATION

**UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR**

FIRST YEAR SECOND SEMESTER EXAMINATIONS

**FOR THE DEGREE OF BACHELOR OF SCIENCE IN
ECONOMICS, BACHELOR OF SCIENCE IN MATHEMATICS &
BACHELOR OF SCIENCE IN ECONOMICS AND STATISTICS**

COURSE CODE: ECO 814

COURSE TITLE: PUBLIC FINANCE & FISCAL POLICY

DATE: WEDNESDAY 27-04-2022

TIME: 9:00 -12:00

INSTRUCTIONS TO CANDIDATES

ATTEMPT QUESTION **ONE** AND ANY OTHER **TWO**

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.

QUESTION ONE

- A). Distinguish between the following pairs of concepts:
- i. A private good and a pure public good (3 marks)
 - ii. Buoyancy of a tax and elasticity of a tax (3 marks)
 - iii. Incidence of a tax and impact of a tax (3 marks)
 - iv. Forfeitures and Escheats (3 marks)
- B). precisely discuss the methods of control of public expenditure in Kenya (10 marks)
- C). Does debt financing necessarily impose a burden upon the future generations? (7 marks)
- D). Account for the growth of public expenditure in Kenya (7 mks)
- E). Describe the role of public debt on economic development 8mks

QUESTION TWO

- a) What is meant by 'Public Sector' enterprise? (5 marks)
- b) Explain why the State, through its government and organs, should assume the responsibility of producing and supplying the goods in the economy (15 marks)

QUESTION THREE

- a) Differentiate between deficit financing and deficit budgeting (7 marks)
- b) Discuss the objectives and ingredients of fiscal policy (8 marks)
- c) What are the limitations of deficit financing? (5 marks)

QUESTION FOUR

- a) The aim of the distribution function of the state is to secure adjustment in the distribution of wealth and income. How is this achieved? (10 marks)
- b) Precisely explain the bargaining solution to externalities according to the Coase Theorem (10 marks)

QUESTION FIVE

- a) Explain free rider problem and its solutions (5mks)
- b) What is meant by 'Debt Management'? (3 marks)
- c) Discuss the various methods of redeeming public debt? (12 marks)

QUESTION SIX

- a). Explain how the following methods can be used to do the costing of a project
 - a. Shadow pricing of market items 5mks
 - b. Discounted cost of capital 4mks
- b). Describe the role of public debt on economic development (5mks)
- c). Account for the growth of public expenditure (3mks)
- d). Describe positive externalities and give three examples (3mks)

