



**MASINDE MULIRO UNIVERSITY OF SCIENCE AND  
TECHNOLOGY**

**(MMUST)**

**MAIN/BUNGOMA/WEBUYE/NAIROBI CAMPUS**

**UNIVERSITY EXAMINATIONS**

**2021/2022 ACADEMIC YEAR**

**THIRD YEAR SPECIAL/ SUPPLIMENTARY  
EXAMINATIONS**

**FOR THE DEGREE**

**OF**

**BACHELOR OF COMMERCE**

**COURSE CODE: BCF 326**

**COURSE TITLE: PUBLIC FINANCE**

**DATE: WEDNESDAY, 27<sup>TH</sup> JULY 2022**

**TIME: 2-4 PM**

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**INSTRUCTIONS TO CANDIDATES**

Answer **QUESTION ONE** and **ANY OTHER TWO** questions.

TIME: 2 HOURS

MMUST observes ZERO tolerance to examination cheating

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

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2

**QUESTION ONE (20 Marks)**

- i) Briefly explain the weaknesses of Coase theorem.(5 Marks)
- ii) Explain in details the two basic principles that distinguish public and private goods, giving example in each case. (5 marks)
- iii) Discuss the similarities and dissimilarities between public and private finance. (3marks)
- iv) What is public debt? Clearly explain the aims and classifications of public debt. (3 marks)
- v) What is taxable capacity? Briefly outline any 5 (five) factors that determine taxable capacity (5 marks)
- vi) Differentiate between proportionate and progressive taxes (3marks)
- vii) Explain at least three methods of evaluating government projects.( 6 marks)

**QUESTION TWO (20 Marks)**

- a) Explain the three types of externalities (6 marks)
- b) Discuss at least five different ways a country can use to solve externalities (10 marks)
- c) Explain four weaknesses of Coase Theorem as a solution to externalities (4 marks)

**QUESTION THREE (20 Marks)**

The goal of public finance is to understand the proper role of the government in the economy.

When should the government intervene in the economy? (10 marks)

Suppose that the demand for good Q is by 2 groups and given by:

$$Q_1 = 45 - 0.2P_1$$

$$Q_2 = 15 - 0.2P_2$$

And the cost function for the same good is given as;  $Cost = 4Q$

Find the equilibrium levels of prices for each group and quantities for each group when the good is private in a competitive market and when the good is public good. Which group will be a free rider and why? (10 marks)

**QUESTION FOUR (20 MARKS)**

- a) State and explain the Wiseman-peacock hypothesis of increasing public expenditure. (6marks)
- b) Briefly, discuss how public debt can be used to regulate the economy. (8marks)
- c) Examine the effects of public expenditure on employment in developing countries. (6marks)