



(University of Choice)

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

MAIN

**UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR**

FOURTH YEAR, SECOND SEMESTER EXAMINATIONS

**FOR
BACHELOR OF SCIENCE IN ECONOMICS**

COURSE CODE: ECO 410

COURSE TITLE: PUBLIC FINANCE AND FISCAL POLICY

DATE: FRIDAY, 22-04-2022

TIME: 12:00-14:00

INSTRUCTIONS TO CANDIDATES

ATTEMPT QUESTION ONE AND ANY OTHER TWO

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

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QUESTION ONE COMPULSORY

- (a). Examine the role of government in resource allocation (6marks)
- (b). Describe the characteristics of the public goods (6 marks)
- (c). Explain the following possible solutions to the free rider problem (6 marks)
- (i). Assurance of contracts
- (ii). Coasian solution
- (iii). Government provision
- (d). Describe the origins and formation of the public choice theory according to Duncan Black (1948) (3 marks)
- (e). Explain using illustration effect of a tax incidence in the case of
- (i) Inelastic supply and elastic demand (3 marks)
- (ii). Elastic supply and demand (3 marks)
- (iii). Inelastic demand and elastic supply (3 marks)

QUESTION TWO

- (a). Using illustration explain the effects of negative and positive externality giving examples (9 marks)
- (b). Distinguish between the beneficiary principle and ability to pay and horizontal and vertical equity in line with equity and income distribution (4 marks)
- (c). Examine the arguments in favour of redistribution of income (7marks)

QUESTION THREE

- (a). Using illustration discuss the Keynesian theory of demand for money under Keynesian theory of money and interest rates (7 marks)
- (b). Explain the automatic stabilizers of the economy that will reduce oscillations as put forward by the monetarists (5 marks)
- (c). Discuss the efficiency principles of taxation (8 marks)

QUESTION FOUR

(a).” The Kenyan government collects a lot of revenue through the Kenya revenue authority which helps it to finance its development projects and perform other functions”. In line with this statement explain the factors determining the taxable capacity to a country such as Kenya (10 marks)

(b). Examine how Colin Clark gives a limit of taxable capacity measurement to a country such as Kenya (3 marks)

(c).” The issue of costs measurement would be simple if all values could be observed in terms of market prices. However, such is not the case”. In line with this statement explain the various methods of measurement of benefits and costs (7 marks)

QUESTION FIVE

(a). Explain the following theories of increase in public expenditure

(i). Wagner’s law of increased public expenditure (3 marks)

(ii). Wiseman and peacock hypothesis (3 marks)

(b). Distinguish between the optimum level of expenditure theory and the ballot box theory (6 marks)

(c). Explain the effects of public expenditure on the diversion of resources with specific reference to Kenya and giving examples where necessary (8 marks)

