



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

**MAIN / BUNGOMA / WEBUYE CAMPUS**

**MAIN EXAM**

**UNIVERSITY EXAMINATIONS  
2022/2023 ACADEMIC YEAR**

**THIRD/SECOND YEAR SEMESTER ONE EXAMINATIONS**

**FOR THE DEGREE  
OF  
BACHELOR OF COMMERCE / BSC ACCOUNTING**

**COURSE CODE: BCF 326 / BCA 326**

**COURSE TITLE: PUBLIC FINANCE**

**DATE: FRIDAY 16<sup>TH</sup> DECEMBER 2022      TIME: 3-5PM**

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**INSTRUCTIONS TO CANDIDATES**

Attempt QUESTION ONE and ANY OTHER TWO questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 2 Printed Pages. Please Turn Over. 

BCF 326: PUBLIC FINANCE

### **QUESTION ONE**

- a) "Welfare Economics deals with the questions concerning the optimal allocation of inputs among industries and the optimal distribution of commodities among consumers. One of the criteria of social welfare is the Pareto-optimal criterion".
- With respect to this statement, describe the marginal conditions that should be fulfilled for optimal resource allocation. **(6 Marks)**
  - Identify any four factors that may stand in the way of welfare maximization and describe how they affect it. **(4 Marks)**
- b) It has been argued that the government should not be a player in the economy but just a moderator of economic activities. Elucidate any five economic tools that the government uses to eradicate malfunctions in the market. **(10 Marks)**
- c) Suppose Bart owns a suppose factory causing pollution and Lisa owns a fishery affected by the pollution. Assume that it is costless for Lisa and Bart to bargain with each other. Barts marginal cost curve is  $P=MC=20$ . His Marginal benefit is  $P=40-8Q$ . The cost of damage done to Lisa is sh.4. (Price is in shillings)
- Derive a graph showing the type of externality that exists in the above scenario in an unregulated market. (3 marks)
  - If Bart has the right to production in a regulated market, what will be the socially optimum outcome be? (4 marks)
  - If Lisa has the right to a polluted free environment, what will be the socially optimal level be will money change hands? (3 marks)

### **QUESTION TWO ( 20 MARKS)**

- a) Using a diagram, explain why a public good is a special form of externality and thus a profit maximizing producer will not supply such a commodity **(10 Marks)**
- b) Briefly explain the budget making process for the national and county governments. **(10 Marks).**

### **QUESTION THREE ( 20 MARKS)**

- a) Although it is generally agreed that a tax system should be just/equitable, there is no unanimity as to what is the correct measure of equity in taxation. Several theories have been proposed to explain the distribution of tax burden (equity). Explain the theories give their critique and capture the current practice in Kenya **(10 Marks)**
- b) Compare and contrast how Musgraves Rostows theory and Wagners organic state theory attempt to account for the long-term growth of government expenditure **(10 Marks)**

### **QUESTION FOUR( 20 MARKS)**

- a) "Privatization can be defined as transfer of ownership of state assets from the public bodies to private enterprise or provision of services from public to private enterprise." Discuss the case for and against privatization in the economy, giving examples from your own country **(10 Marks)**
- b) Borrowing is a substitute for taxing citizens immediately, replacing present taxes with future taxes and thus necessitating the payment of interest on the debt. Explain any five factors that inform the choice between debt and taxes. **(10 Marks)**