

LAIKIPIA



UNIVERSITY

# UNIVERSITY EXAMINATIONS

1<sup>ST</sup> SEMESTER 2023/2024 ACADEMIC YEAR

SECOND YEAR EXAMINATION FOR THE DEGREE  
OF BACHELOR OF SCIENCE IN ECONOMICS AND  
STATISTICS

**ECON 213: PUBLIC SECTOR ECONOMICS**

***STREAM:*** BSC ECON/STAT

***TIME:*** 2 HRS

***DAY:*** WEDNESDAY [8.30-10.30 A.M]

***DATE:*** 13/12/2023

**THIS QUESTION PAPER CONSISTS OF FOUR (4) PAGES**

**PLEASE DO NOT OPEN UNTIL THE INVIGILATOR SAYS SO.**



**INSTRUCTIONS: Answer QUESTION ONE and other TWO QUESTIONS****QUESTION 1**

a) Define the following terms as used in the public sector economics

- i) Information asymmetry
- ii) Pareto optimality
- iii) Market failure
- iv) An externality

**(4marks)**

b) The following empirical data is drawn from the economic surveys of Kenya for various years as indicated in the table below.

Year	2015	2016	2017	2018	2019
GDP at market prices	4,745,143.00	5,402,410.00	6,284,185.00	7,194,147.00	7,749,426.00
Tax Revenue	911,803.70	1,121,597.03	1,306,563.03	1,576,960.14	1,866,243.01
Government Expenditure	679,876.00	784,783.00	985,293.00	1,171,349.00	1,405,243.00

- i) Use the data set to calculate the size of the public sector using any two methods for this economy. **(4 marks)**
- ii) State and explain any two theories that would explain the trend depicted by the size of the public sector in b (i) above **(6 marks)**
- c) State and explain four causes of market failure. **(4 marks)**
- d) Using an illustration explain regulation as a public response mechanism to externality. **(6 marks)**
- e) Using your own country's experience explain three major reasons for government failure. **(6 marks)**



**QUESTION 2**

- (a) Discuss how the three Pareto - optimal conditions for optimal allocation of inputs and distribution of commodities among producers are fulfilled in perfect competition. **(9 marks)**
- (b) Using a case of your country, what are some of the consequences for the growth in public expenditure? **(8 marks)**
- (c) Explain any 3 determinants of political equilibrium **(3 marks)**

**QUESTION 3**

- a) Explain the two main characteristics of public goods and give an example of a public good with the respective characteristics. **(4marks)**
- b) With the help of well labeled diagrams, explain the conditions for efficient provision of public and private goods **(10 marks)**
- c) Explain 4 canons of public expenditure. **(4 marks)**
- d) Define the following terms
- i) Free- rider problem
  - ii) Non-rivalness in consumption **(2 marks)**

**QUESTION 4**

- (a) Using illustrations, explain the difference between consumer surplus and producer surplus as used in welfare economics **(8 marks)**
- (b) Due to changing economic slumps and upturns, government expenditure is expected to grow over time. However, there are a number of factors that restraint the growth of public expenditure. Discuss four of these factors in detail. **(8 marks)**
- (c) Differentiate between a pure and a impure public good and give an example of a good for each type **(4 marks)**



## QUESTION 5

Consider a society with three voters John, James and Peter confronted with three alternatives of public goods X, Y and Z. The individual preferences for the three public goods are as shown below

Ordering/Individual	John	James	Peter
1	X	Y	Z
2	Y	Z	Y
3	Z	X	X

- a) If the funds available can only finance one of the projects, which one could be implemented? **(6 marks)**
- b) Suppose Peter's preferences were ordered as follows Z, X and Y what project would be implemented. **(4 marks)**
- c) What problems does the scenario in (b) above present in making public choices **(4 marks)**
- d) Using a well labeled diagram demonstrate the cause of the problem in (b) above and explain any of its causes. **(4 marks)**
- e) What alternatives are available in making public choice other than the one demonstrated in this question? **(2 marks)**