

LAIKIPIA



UNIVERSITY

UNIVERSITY EXAMINATIONS

1ST SEMESTER 2023/2024 ACADEMIC YEAR

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

ECON 314: PUBLIC FINANCE AND FISCAL POLICY

STREAM: BSC (ECON, STAT)

TIME: 2 HRS

DAY: MONDAY [11.30-13.30 P.M]

DATE: 11/12/2023

THIS QUESTION PAPER CONSISTS OF THREE (3) PAGES

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INSTRUCTIONS: Answer QUESTION ONE and other TWO QUESTIONS

QUESTION 1

- a) Define the following terms as used in the public sector economics
 - (i) Quasi-public goods
 - (ii) Negative externalities
 - (iii) Market failure
 - (iv) Non-excludability of a good in consumption **(4 marks)**
- b) Consider a local manufacturing firm that emits gas into the air. The Marginal private benefit of this power plant is given by $MPB = 50 - 2Q$. The marginal private costs are given by $MPC=20$. The marginal damage to the society is given by $MD = 1.2 Q$.
Required:
 - i) How much output is this power plant going to produce? **(3 marks)**
 - ii) What is the socially optimal level of output? **(3 marks)**
 - iii) What is the net welfare gain to the society as a result of producing output (ii) compared to (i) above? **(4 marks)**
- c) Discuss four rationales for government intervention in private sector activities **(8 marks)**
- d) Explain four factors that affect the effective incidence of a tax **(8 marks)**

QUESTION 2

- (a) Explain the three types of externalities **(6marks)**
- b) The County Government of Garissa intends to undertake the following two mutually exclusive projects (P_1 and P_2). The table below gives their cash flows and initial costs.

Project	Yearly Cash Flows (USD Millions)					
	0	1	2	3	4	5
P_1	(1,555)	450	590	510	250	205
P_2	(1,861)	500	1,150	650	520	280



Required: Using the following listed techniques, determine which project should be undertaken.
Use a rate of return of 10%

- i) Net Present Value technique. **(5 marks)**
- ii) Internal rate of return techniques. **(5 marks)**
- c) Explain four canons of a good tax system **(4 marks)**

QUESTION 3

- a) Explain the two main characteristics of public goods **(4 marks)**
- b) Using a diagram explain the principle of maximum social advantage in allocation of public resources. **(10 marks)**
- c) Explain any 3 roles of the National Assembly in the budgetary process in Kenya. **(6 marks)**

QUESTION 4

- a) Using appropriate diagrams to differentiate between efficient provision of public and private goods. **(8 marks)**
- b) Discuss how the government can use the following approaches to correct negative externalities
 - i) Property rights **(2 marks)**
 - ii) Actionable pollution permits **(2 marks)**
- c) State and explain four causes of market failure. **(8 marks)**

QUESTION 5

- (a) Discuss the reasons why most of the developing economies are trapped in debt problems **(10 marks)**
- (b) Using appropriate policies explain the following budgetary functions of the government.
 - i) Allocation **(3 marks)**
 - ii) Distribution **(3 marks)**
 - iii) Stabilization **(4 marks)**

