

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS**

**O DEL**

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE**

**BCOM 335: PUBLIC FINANCE**

**STREAMS: Y3S1**

**TIME: 2 HOURS**

**DAY/DATE: TUESDAY 30/03/2021**

**11.30 A.M – 1.30 P.M**

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**INSTRUCTIONS:**

**Answer questions one and any other two questions**

**QUESTION ONE**

(a) Two public financial analysts argued that the progressive tax system should be applied since it conforms to the principle of taxable capacity while the other analyst disregarded progressive tax since it encourages laziness in the country. Compare and contrast the two views.

[12 marks]

(b) This year national budget has been estimated at 3.02 trillion and the Kenyan revenue can only raise a total of 2 trillion to finance the budget as a result the government is forced to borrow. Explain the reasons why the government must borrow to finance the budget and the negative consequences of this borrowing.

[12 marks]

(c) The budget expenditure for 2019 had increased by 30% as compared to 2018. Later the government discovered that the government cannot execute the budget as a result some particular sectors of the economy like judiciary budget was reduced. Discuss the effects for the reduction.

[6 marks]

## QUESTION TWO

- (a) Distinguish between public and private finance. [6 marks]
- (b) A section of Kenyans have decided not to pay tax to the government by using loopholes the government later found that they were evading tax and thus they were legally punished. Discuss the effects of his tax evasion to the Kenyan economy. [6 marks]
- (c) The budgeted expenditure for 2022 will increase because of the election as compared to this year. Discuss the negative consequences for the increased expenditure.[8 marks]

## QUESTION THREE

- (a) Due to COVID 19 the inflation rate in the country rose to 5.9% as a result the government will be forced to reduce the inflation rate so that Kenyans will not experience the heavy burden of spending brought about inflation by coming up with fiscal policy. Explain the role played by this policy. [8 marks]
- (b) Explain the conditions that can result in the removal of the controller of budget from office. [6 marks]
- (c) There are certain principles that must be included in the tax system in order to make the Kenyan tax system optimal. Discuss these principle. [8 marks]

## QUESTION FOUR

- (a) The preparation and execution of the budget estimates requires the adoption of certain cannons in line with the set objective. Describe the cannons that the minister of finance considers in the national budget. [7 marks]
- (b) Explain the functions of the office in charge of allocating revenue to the various sectors of the economy. [8 marks]
- (c) Discuss the functions of public finance. [5 marks]

