

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE  
OF BACHELOR OF ECONOMICS STATISTICS, BACHELOR OF ARTS  
ECONOMICS MATHEMATICS**

**ECON: 446: PUBLIC FINANCE & FISCAL POLICY****STREAMS:****TIME: 2 HOURS****DAY/DATE: TUESDAY 21/09/2021****8.30 A.M. – 10.30 A.M.****INSTRUCTIONS:**

- *Answer question one and any other two questions*

**QUESTION ONE**

- a) Distinguish between consumption and production externality. Give at least two examples of each. (3 marks)
- b) Some economists support the doctrine of laissez-faire which was based on the principle of minimum state intervention in the workings of the economy. However, this can lead market failure. Explain the rationale of government intervention. (7 marks)
- c) Most East Africa Countries, borrowing spree has increased the accumulation of new debts with signs that these countries 'capacity to repay loans could be impaired, eventually leading to debt crisis. As an economist, suggest ways that are necessary to solve this problem. (10 marks)
- d) The government is interested in taxing sugar in order to increase its tax revenue. The market is currently at equilibrium at a price Ksh.20 per kg and sales of Ksh.500. Suppose the own price elasticity of demand at equilibrium point is 0.1 and the own price elasticity of supply at this point is 0.2. Now the government announces the tax measure with the new market price to be maintained at Ksh 30 per kg.

## Required

- e) Compute the suppliers and buyers tax burden. (6 marks)
- f) How much will the government get from the new tax measure? (2 marks)
- g) Calculate the dead weight loss of the tax (excess burden of the tax). (2 marks)

**Question two**

- a) Discuss the following public policy objectives showing clearly the extent to which your country has achieved them.
  - i. Regulatory objective (7 marks)
  - ii. Stabilization objective (6 marks)
- b) Explain how the following functions conflict with each other as government try to implement them
  - i. Allocation and distribution function (3 marks)
  - ii. Distribution and stabilization function (4 marks)

**Question Three**

- a) Discuss the following theories of growth of public expenditure
  - i. Wagner's theory (5 marks)
  - ii. Peacock model (5 marks)
  - iii. Ratchet effect model (5 marks)
  - iv. Fiscal illusion model (5 marks)

**Question four**

- a) Many public university lecturers in Kenya moonlight for extra earnings. However, these earnings are never reported to the tax authorities. What are the effects of this on the economy? Explain (10 marks)
  - b) Compare and contrast the optimal provision of public good and private good. (10 marks)
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