

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS**

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

**BCOM 335: PUBLIC FINANCE**

**STREAMS: Y3S2 ODEL**

**TIME: 2 HOURS**

**DAY/DATE: WEDNESDAY 12/04/2023**

**2.30 P.M – 4.30 P.M**

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**INSTRUCTIONS:**

**Answer question one and any two questions**

**QUESTION ONE**

- (a) One school of thought argues that proportional tax system is better since it encourages equity while the other school of thought argues that it should not be encouraged since it is inequitable. Compare and contrast these statements. [10 marks]
- (b) This year's national budget has been estimated at ksh 3.02 trillion and the Kenya Revenue Authority can only raise a total of ksh 2 trillion to finance the budget and as a result the government will be forced to borrow.
- (i) Explain the different types of debt
- (ii) Discuss the effects of this borrowing to the Kenyan economy. [10 marks]
- (c) The budgeted expenditure for 2022 was ksh 3.17 trillion. Later the treasury discovered that the government cannot execute the budget and as a result, the country's budget was reduced. Discuss the effects for this reduction. [6 marks]
- (d) Discuss the peacock and Wiseman theory of public expenditure. [4 marks]

**QUESTION TWO**

- (a) Explain the similarities that exists between public and private finance. [6 marks]

- (b) A section of Kenyans have taken advantage of loop holes in the tax system to evade tax. The state has consequently taken measures to impose civil penalties to non paying entities and individuals. Discuss the effects of this tax evasion to the Kenyan economy. [8 marks]
- (c) Discuss the different classifications of public expenditure. [6 marks]

### QUESTION THREE

- (a) Explain the functions of public finance. [6 marks]
- (b) There are certain cannons that must be included in the tax system in order to make the Kenyan tax system optimal. Discuss these cannons. [8 marks]
- (c) The cost of living in Kenya is vey high due to inflation occasioned by covid pandemic and Russian war that has affected the whole world. The country has decided to employ monetary policy to reduce the cost of living to her people. Explain the role played by the monetary policy. [6 marks]

### QUESTION FOUR

- (a) Explain the functions of the commission that is in charge of equitable sharing of revenues to the national and the country governments. [8 marks]
- (b) Discuss the principles of maximum social advantage and its assumptions. [5 marks]
- (c) The preparation and execution of the budget estimates requires the adoption of certain cannons in line with the set objectives. Describe the cannons that the minister for finance considers in the national budget. [7 marks]
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