

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE
OF BACHELOR OF SCIENCE

ECON 446: PUBLIC FINANCE AND FISCAL POLICY

STREAMS: BSC (ECON)

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 11/12/2019

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS:

- Answer question ONE and any other TWO questions
- Do not write anything on the question paper

QUESTION ONE

- (a) Distinguish between public goods and private goods [2 marks]
- (b) Particular tax or expenditure measures affect the economy in various ways and may be designed to serve a variety of purposes
- (i) Explain the difference between fiscal policy and fiscal objectives [2 marks]
- (ii) Identify four functions played by the government through public finance and explain how the government goes about achieving those functions [8 marks]
- (c) Examine five types of budgeting techniques used by governments across the world. [5 marks]
- (d) There is generally a belief that the private sector is more efficient than the public sector in providing goods and services in any economy. This in practice has led to the popular and ongoing privatization of public sector enterprises across the globe. However, no country is willing to leave all the operations of their economies in the hands of the private sector. With the help of appropriate illustrations, discuss five justifications for continued government involvement in the provision of goods and services in an economy. [10 marks]
- (e) Highlight three characteristics of a good tax system [3 marks]

ECON 446

QUESTION TWO

- (a) Outline the stages involved in the Kenya government budget process as per section 35 (i) of the Kenya public finance management Act 2012. [8 marks]
- (b) Explain different ways of coming tax fraud [6 marks]
- (c) Differentiate between consumption and production externality [2 marks]
- (d) Evaluate the main sources of market failure in an economy [4 marks]

QUESTION THREE

- (a) Clearly explain the meaning of the following terms as spelt in the Kenya financial management Act 2012 and Kenyan constitution of 2010
 - (i) Equalization fund
 - (ii) Consolidated fund
 - (iii) Revenue fund [6 marks]
- (b) Most developing countries are in debt crisis. Discuss the main consequences of public debt [8 marks]
- (c) What are the main roles played by Kenya revenue authority (KRA) in the economy [4 marks]
- (d) Elaborate on any two canons of public expenditure [2 marks]

QUESTION FOUR

- (a) Discuss the following theories of growth of public expenditure
 - (i) Fiscal illusion model [5 marks]
 - (ii) Crowding out model [5 marks]
 - (b) Fiscal policy entails the manipulation of government revenue and expenditures in order to achieve desired policy objectives. Explain these objectives [5 marks]
 - (c) Briefly examine the role of government borrowing on an economy. [5 marks]
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