

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

FOURTH YEAR EXAMINATION FOR THE AWARD OF BACHELOR OF SCIENCE
IN ECONOMICS AND SOCIOLOGY

ECON 422: PUBLIC FINANCE & FISCL POLICY

STREAMS:

TIME: 2 HOURS

DAY/DATE: FRIDAY 8/12/2017

8.30 A.M - 10.30 A.M.

INSTRUCTIONS:

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

QUESTION ONE (COMPULSORY)

- (a) Explain what tax evasion is and give at least two examples. [2 Marks]
- (b) What are the restraints to the growth of public expenditure in your economy? Explain. [8 Marks]
- (c) Why is it that in most countries a relatively large part of the economy is subject to some form of government direction, rather than left to the 'invisible hand' of market forces? Explain. [10 Marks]
- (d) The government is interested in taxing beer in order to increase its tax revenue. The market has the following demand and supply functions
 $Q=100-P$ (Demand curve)
 $P=20+Q$ (Supply curve)

The government imposes the per unit tax which raises the selling price to Kshs.80

Required:

- (i) Compute and show the suppliers and buyers tax burden. [6 Marks]
- (ii) How much will the government get from the new tax measure? [2 Marks]
- (iii) Calculate the deadweight loss of the tax (excess burden of the tax) [2 Marks]

QUESTION TWO

- (a) Discuss the following theories of growth of public expenditure
- (i) Fiscal illusion model [5 Marks]
- (ii) Ratchet effect model [5 Marks]

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- (iii) Peacock and Wiseman's political constraint model [5 Marks]
- (b) Explain clearly what market failure is. [5 Marks]

QUESTION THREE

- (a) Distinguish between the following types of tax
 - (i) Direct and indirect tax [2 Marks]
 - (ii) Progressive and regressive tax [2 Marks]
- (b) Highlight the disadvantages of direct tax [6 Marks]
- (c) With reference to your country, explain the main consequences of tax evasion. [10 Marks]

QUESTION FOUR

- (a) Explain the main ways in which the government and private respond to the problem of externalities. [10 Marks]
 - (b) Most developing countries are in debts crisis. Explain the main causes of this. [10 Marks]
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