



SOUTH EASTERN KENYA UNIVERSITY
UNIVERSITY EXAMINATIONS 2017/2018

**THIRD SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF
COMMERCE**

XEA 408: PUBLIC FINANCE AND POLICY

DATE: 17TH AUGUST, 2018

TIME: 2.00-4.00PM

Instructions to Candidates

- a) Answer Question **ONE** and any other **TWO** questions.
- b) Begin answering a new question on a separate page on the booklet provided
- c) Credit will be given to the clarity of argument and use of local examples.

QUESTION ONE (30 MARKS)

- a) Explain any 5 (five) cannons of public expenditure. (5 marks)
- b) Explain the effects of increased government expenditure on an economy. (5 marks)
- c) Describe at least four causes of market failure (4 marks)
- d) Explain five distinctions between public goods and private goods (5 marks)
- e) Describe five canons of a good tax system (5 marks)
- f) Define externality and name the three types of externalities (4 marks)
- g) Discuss non-excludability and non-rivalry characteristics of public goods (4 marks)

QUESTION TWO (20MARKS)

- a) Describe five categories of tax in Kenya (10 marks)
- b) Explain three(3) types of tax incidence (6 marks)
- c) Explain the major fiscal tools used to check depression and boom. (4 marks)

QUESTION THREE (20 MARKS)

- a) Discuss fiscal functions of governments (5 marks)
- b) Explain problems associated with a single tax system (5 marks)
- c) Discuss five (5) different approaches a country can use to resolve the problem of externalities (10 marks)

QUESTION FOUR (20 MARKS)

- a) Explain the following theories of public expenditure (2 marks)
 - i. Organic theory (2 marks)
 - ii. Ballot box theory (2 marks)
 - iii. Positive theory (2 marks)
 - iv. Optimal level theory (2 marks)
 - v. Individual choice theory (2 marks)
- b) Distinguish between Public wants and private wants. (4 marks)
- c) Discuss the implications of budget deficits in the economy of a country (6 Marks)

QUESTION FIVE (20 MARKS)

- a) Explain five roles played by the Treasury of any developing country (10 marks)
- b) Define the budget and explain three different types of development budgets (7 marks)
- c) Explain three factors that determine the level of production and employment in a country. (3 marks)