

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE
IN BACHELOR OF ECONOMICS**

ECON 446: PUBLIC FINANCE AND FISCAL POLICY**STREAMS: ECON****TIME: 2 HOURS****DAY/DATE: THURSDAY 25/03/2021****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) Explain the advantages of direct tax (4 marks)
- (b) According to some economist, the preference of the government is to increase expenditure because they spend other people's money. However, they are restrained by a number of factors. Explain (8 marks)
- (c) Ratchet effect model of public expenditure growth argues that, the level of expenditure does not fall back to its original level after the period of upheaval due to several reasons. Explain these reasons (8 marks)

The following is demand and supply functions which changes the selling price ksh 72

$$Q=300 -4 P \text{ (demand curve)}$$

$$P=50+Q \text{ (Supply curve)}$$

Required;

- (i) Compute and show the supplier 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 tax) (2 marks)

Question two

- (a) Discuss the approaches used to measure the excess burden of tax (10 marks)
- (b) Explain the following theories of public expenditure growth
- (i) Musgrave-Rostow's Theory (5 marks)
 - (ii) Peacock and Wiseman's theory (5 marks)

Question three

- (a) Compare between efficient provision of public goods and private goods (10 marks)
- (b) Pareto efficient allocation of public requires that no person can be made better off without making another person worse off. However, many markets are unable to attain this allocation. Give reasons (10 marks)

Question four

- (a) Most East African Countries, borrowing spree has increased the accumulation of new debts with signs that these countries' capacity to repay loan could be impaired, eventually leading to debt crisis. As an economist, suggest ways that are necessary to solve this problem (10 marks)
- (b) Discuss the following functions of the government
- (i) Allocation function (5 marks)
 - (ii) Regulatory function (5 marks)
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