**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**P.O. Box 972-60200 – Meru-Kenya**

**Tel: 020-2069349, 061-2309217. 064-30320 Cell phone: +254 712524293, +254 789151411**

**Fax: 064-30321**

**Website:** [**www.must.ac.ke**](http://www.must.ac.ke) **Email:** **info@must.ac.ke**

**University Examinations 2015/2016**

THIRD YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE

OF

 BACHELOR OF COMMERCE

**BFC 3380: FINANCIAL MANAGEMENT IN PUBLIC SECTOR**

**DATE: APRIL 2016 TIME: 2 HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two***questions.

**QUESTION ONE (30 MARKS)**

1. Constitution of Kenya 2010 contains the following sections.

Part 1 Principles and framework of public finance.

Part 2 Public funds

Part 3 Revenue causing power and public debts

Part 4 Revenue allocation

Part 5 Budgets and spending

Part 6 Control of public money

Part 7 Financial offices and institutions.

You are required to discuss the above sections outlining key issues in each. (20 marks)

1. With a clear example, describe a free rinder problem and make recommendation on how to tackle such problems. (10 marks)

**QUESTION TWO (20 MARKS)**

1. The following title appeared on the Daily Nation

Central Bank must take a position on Eurobond. Explain the role of Central Bank on debt management of a country. (10 marks)

1. Explain the role digital technology in regard to safeguarding financial resource of the state. (10 marks)

**QUESTION THREE (20 MARKS)**

1. New audit laws hampers effective oversight of government, says the auditor general.

Evaluate this statement attributed to the auditor general explaining how Laws can affect transparency and fiscal responsibilities of the government. (8 marks)

1. Explain the following in regard to public finance management.
2. Theory of public revenue (4 marks)
3. Theory of public expenditure (4 marks)
4. Financial administration (4 marks)

**QUESTION FOUR (20 MARKS)**

1. Explain the following terms as used in financial management in public sector.
2. Pure public goods (2 marks)
3. Pure private goods (2 marks)
4. Externalities. (2 marks)
5. Explain three reasons for market failure to operate efficiently (6 marks)
6. Explain four (4) reasons why the state fails to provide predominantly public goods. (8 marks)

**QUESTION FIVE (20 MARKS)**

1. Clearly differentiate between recurrent expenditure and development expenditure (4 marks)
2. Explain the effect of public expenditure on the following
3. Economic stabilization (4 marks)
4. Production (4 marks)
5. Economic growth (4 marks)
6. Wealth distribution (4 marks)