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**University Examinations 2014/2015**

THIRD YEAR, SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**HBF 2305: FINANCIAL MANAGEMENT IN THE PUBLIC SECTOR**

**DATE: DECEMBER 2014 TIME: 2 HOURS**

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

**QUESTION ONE**

1. The problem with selling off profitable publicly owned undertakings is that in the long-term government and therefore the tax payer, loses out by forfeiting the future stream of profits. Discuss the validity of this statement (10 marks)
2. Discuss what particulars effects might result from attempts to achieve reduction in public expenditure and increases in charges made for the products or services of nationalized industries. (10 marks)
3. What are the general economic effects of mentioned government policies on private sector business?
4. Reduction of taxation on incomes (5 marks)
5. Minimizing its borrowing capacities (5 marks)

**QUESTION TWO**

The new constitution of Kenya establishes county government as independent entities in both executive and legislative power. In performing the assigned functions counties will utilize resources from three main sources.

1. Explain the three main sources of revenue for county governments (6 marks)
2. Highlighting six principles that should guide public financial management in the county government (6 marks)
3. Explain three reasons why more and more counties are trending towards Public Private Partnership (PPPs). Also outline three reasons why they may not be the best for all countries.(6 marks)
4. In relation to public sector budget, explain the term budgeting (2 marks)

**QUESTION THREE**

1. Outline the three functions of public finance (6 marks)
2. Outline the public debt management measures that treasury uses to manage public debt.

(6 marks)

1. Critically discuss the differences between public and private sector (8 marks)

**QUESTION FOUR**

1. The free-rider problem of public goods is such that everybody wishes to enjoy which they did not participate in their production. Explain some solutions to the free rider problem.

(10 marks)

1. Explain types of efficiency that an economy should achieve in order to avoid situations of market failure. (10 marks)

**QUESTION FIVE**

1. How have performance contracts in public sector helped restore and build trust in Kenyan government? (10 marks)
2. The inability of government to budget for its capital expenditure can be achieved by many stalled projects across the country. In what ways do you think the government would benefit by adopting capital budgeting for its projects? (10 marks)