

KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

**SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF
ECONOMICS AND FINANCE**

EAE 404: ECONOMICS OF PUBLIC ENTERPRISES

DATE: Wednesday 18th July 2018

TIME: 11:00 a.m.– 1:00 a.m.

QUESTION ONE (30 MARKS)

- a) Briefly explain four advantages that departmental undertakings have over other forms of public enterprises. (4 marks)
- b) Explain six reasons why the government may enter into partial ownership of a going private enterprise. (6 marks)
- c) State five advantages and disadvantages of public enterprises. (10 marks)
- d) Briefly explain any five reasons used to advocate for public sector reforms.(10 marks)

QUESTION TWO (20 MARKS)

- a) Distinguish between a public company and public corporation and give examples in each. (4 marks)
- b) State four ways that can be used to give greater role to market forces in the functioning of institutions. (4 marks)
- c) Briefly explain six ways that the state may use to transfer a public enterprise from state to private ownership. (12 marks)

QUESTION THREE (20 MARKS)

- a) Briefly explain seven problems encountered by public enterprises in Kenya. (10 marks)
- b) Explain five type of classification used to classify public enterprises. (10 marks)

QUESTION FOUR (20 MARKS)

- a) You have been given the following information about various projects.

PROJECT	YEAR				
	0	1	2	3	4
A	(1000)	1200	0	0	0
B	(1361.1)	500	500	500	500
C	(1000)	1200	1500	0	0
D	(2000)	1000	0	0	0

Required:

Assuming an interest rate of 10%, evaluate the above projects using NPV criteria. (8 marks)

- b) Explain six levels that the government can use in evaluation of efficiency of public enterprises. (12 marks)

QUESTION FIVE (20 MARKS)

- a) Highlight three limitations of marginal costing as a pricing policy for public enterprises. (6 marks)
- b) Explain the following reform strategies: restructuring, privatization and public – private partnership. (9 marks)
- c) Discuss the role of government in a capitalist economy. (5 marks)