



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**FOURTH YEAR SECOND SEMESTER EXAMINATIONS FOR THE
DEGREE OF BACHELOR OF ARTS IN ECONOMICS WITH
INFORMATION TECHNOLOGY**

CITY CAMPUS – REGULAR

AEC 402: PUBLIC FINANCE AND FISCAL POLICY

Date: 12th June, 2017

Time: 2.00 - 5.00 pm

INSTRUCTIONS:

- Answer question ONE and any other THREE questions.

QUESTION ONE

- a) Identify and explain three major fiscal functions (9 marks).
 - b) Using appropriate illustration, explain the Principle of Maximum Social advantage theory of Public Finance (6 marks).
 - c) Discuss the scope of public finance (10 marks).
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QUESTION TWO

Provide the distinguishing characteristics of the following types of goods

- a. Public goods (5 marks)
- b. Private goods (5 marks)
- c. Mixed goods (5 marks)

QUESTION THREE

Using the marginal benefit principle, explain how the government may provide a mixed good/service to members of the public (15 marks).

QUESTION FOUR

What are the causes for increasing public expenditure in modern economies? (15 marks)

QUESTION FIVE

- a) Explain the qualities of a good tax system? (10 marks)
- b) Identify and explain the principles of taxation? (5 marks)

QUESTION SIX

Suppose the market demand and supply functions for commodity X are given as $Q_d = 30 + 2P$ and $Q_s = 5P - 5$ respectively before any tax. The government imposes a Kshs 0.80 tax per unit X on the producers.

- a. Calculate the equilibrium market condition before and after tax (5 marks)
- b. Calculate the government revenue and dead weight loss (5 marks)
- c. Calculate and provide an interpretation of the tax incidence (5 marks).