



# MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS  
2018/2019 ACADEMIC YEAR  
THIRD YEAR SECOND SEMESTER**

**SCHOOL OF EDUCATION  
BACHELOR OF EDUCATION (ARTS)**

**COURSE CODE: ECO 323  
COURSE TITLE: PUBLIC FINANCE AND  
FISCAL  
POLICY**

**DATE: 23<sup>RD</sup> APRIL 2019  
- 1300HRS**

**TIME: 1100**

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## **INSTRUCTIONS TO CANDIDATES**

Answer Question **ONE** and any other **THREE** questions

*This paper consists of **TWO** printed pages. Please turn over.*

### **QUESTION ONE**

a) Discuss the rationale for government intervention in private sector activities.

**(7 Marks)**

b) Explain the instruments of fiscal distribution policy.

**(8 Marks)**

c) The County Government of Narok intends to undertake the following two mutually exclusive projects ( $P_A$  and  $P_B$ ). The table below gives their cash flows and initial costs. Use the Net Present Value technique and the Internal Rate of Return techniques to decide which project should be undertaken. (Use a required rate of return of 12 per cent).

Project	Yearly Cash Flows (USD Millions)					
	0	1	2	3	4	5
$P_1$	(1,685)	550	680	620	350	310
$P_2$	(1,850)	600	1,350	750	530	295

**(10 Marks)**

### **QUESTION TWO**

a) Discuss the limitations of fiscal policy in a developing economy.

**(9 Marks)**

b) Explain the role of the National Assembly in the budgetary process in Kenya.

**(6 Marks)**

### **QUESTION THREE**

a) With an aid of a diagram, explain how market failure would result if the agents engage in uncompetitive practices.

**(8 Marks)**

b) Discuss the cannons of a good tax system.

**(7 Marks)**

#### **QUESTION FOUR**

**a)** Discuss the constraints to government expenditure through debt financing.

**(9 Marks)**

**b)** Give 3 critiques to the Pigouvian tax system as a way forcing producers to produce socially optimal output levels.

**(6 Marks)**

#### **QUESTION FIVE**

**a)** Use a well-labeled diagram to illustrate the consequence on tax incidence of imposing a unit tax on a commodity.

**(7 Marks)**

**b)** Distinguish between callable public debt and redeemable public debt.

**(3 Marks)**

**c)** Discuss the Wagner's law of public expenditure.

**(5**

**Marks)**

**//END**