



MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS
2022/2023 ACADEMIC YEAR
THIRD YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS
BACHELOR OF SCIENCES IN FINANCIAL ECONOMICS**

COURSE CODE: ECF 3104-1

COURSE TITLE: ECONOMICSOFTAXATION

DATE: 6TH DECEMBER, 2022

TIME: 1430-1630

Instructions

Answer question **ONE** and any other **TWO**

*This paper consists of **Four (4)** printed pages. Please turn over.*

QUESTION 1

- a) Define the term Excess Tax Burden **(1 mark)**

The government of Kenya is planning to tax a petroleum jelly brand in order to raise tax revenue. The market is currently at equilibrium at a price of KES. 200 per kilogram and sales of 100 tons per year. Suppose the own price elasticity of demand for the jelly at the equilibrium point is $\frac{1}{10}$ and the own price elasticity of supply at this point is $\frac{1}{5}$. The government announces that the tax measure with the new market price to be maintained at KES 250 per kilogram.

- i) Compute the seller and buyer burdens of this taxation plan **(5 marks)**
- ii) How much will the government raise in tax revenue under this new tax measure? **(2 marks)**
- iii) Calculate the deadweight loss of the tax. **(2 marks)**
- b) Explain the following canons of taxation:
- i) Equity **(4 marks)**
- ii) Buoyancy
- c) Explain any three (3) strategies which a government could use to minimize tax evasion and avoidance. **(6 marks)**

QUESTION 2

- a) Explain any five (5) sources of pressure for changes in the tax system of your country **(10 marks)**
- b) Define the following terms **(5 marks)**
- i) Federal system
- ii) Unitary state
- iii) Centralization ratio
- iv) Tax competition
- v) Tax harmonization

QUESTION 3

- a) What does the taxable capacity of a country mean? **(1 mark)**
- b) Explain any three (3) factors that can increase the taxable capacity of a country **(6 marks)**
- a) Using the situation of your country, explain any four (4) causes of debt crisis in developing countries **(8 marks)**

QUESTION 4

- a) With the aid of well-labeled diagrams, discuss the interpretations of the equal sacrifice rule:
- i) Equal absolute sacrifice **(5 marks)**
- ii) Equal proportional sacrifice **(5 marks)**
- b) With the aid of a diagram, explain how a unit tax imposed on a good influences the incidence of the tax. **(5 marks)**