



# **MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATIONS**

**2022/2023 ACADEMIC YEAR**

**FIRST YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**MASTER OF SCIENCE IN ECONOMIC POLICY**

**ANALYSIS AND MANAGEMENT**

**COURSE CODE: ECO 8104**

**COURSE TITLE: PUBLIC SECTOR**

**ENTERPRISES ECONOMICS**

**DATE:8TH FEBRUARY 2023**

**TIME:1430HRS-1730HRS**

**INSTRUCTIONS TO CANDIDATES: ANSWER QUESTION ONE AND ANY OTHER THREE QUESTIONS**

## QUESTION ONE

- a) Describe main objectives of public sector in the economy. **(5mks)**
- b) "Pigouvian tax essentially penalizes economic growth rate in the economy. Discuss **(5mks)**
- c) Explain whether budget deficits in Kenya should economy should be financed by borrowing or rising taxes. **(10mks)**
- d) Differentiate between normative economics and positive economics. **(5mks)**

## QUESTION TWO

a). Consider an economy described by the following functions in billions shillings.

$$Y = C+I+G$$

$$C = 100+0.5Y_D$$

$$I = 40+0.1Y$$

$$G = 100$$

$$Y_D = Y - T$$

- i. Calculate the equilibrium level of income **(2mks)**
- ii. Find the government budget at equilibrium income **(3mks)**
- iii. Calculate the value of government expenditure multiplier **(3mks)**
- iv. Show that the change in income generated by decreasing taxes by Kshs. 10 billion is less than that which will be achieved by increasing government expenditure by the same amount. Explain why it is so. **(5mks)**

## QUESTION THREE

- a). Explain how welfare is measured using the following criterion: **(6mks)**
  - i). Arrow Impossibility Theory
  - ii). Kaldor- Hicks
  - iii). Paretion
- b). Discuss the Canons of taxation according to Dalton. **(4marks)**
- c). Explain the principles of public expenditure. **(5marks)**

#### QUESTION FOUR

a). Use examples and illustrations to differentiate between social goods and private goods.  
(4marks)

b). Discuss the factors that influence taxable capacity in LDCs. **(4marks)**

c). Kenya's public enterprises debt has been growing at alarming rate annually and is the concern to policy makers and the public in general. Discuss main causes of the debt and effects to the economy.  
**(4marks)**

#### QUESTION FIVE

a). Explain how the following methods are used in investment analysis and social cost benefits:  
(9mks)

- i. Payback period
- ii. Net present value
- iii. Sensitivity analysis

b). Discuss main causes of externalities and their effects to the economy. **(6mks)**

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