MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS

2023/2024 ACADEMIC YEAR

FOURTH YEAR FIRST SEMESTER

SCHOOL OF BUSINESS AND ECONOMICS
BACHELOR OF SCIENCES IN FINANCIAL ECONOMICS

COURSE CODE: ECF 3104-1

COURSE TITLE: ECONOMICS OF TAXATION

DATE: 6/12/2023 **TIME: 1430-1630 HRS**

INSTRUCTIONS TO CANDIDATES

1. **Answer Question ONE and any other TWO questions**

This paper consists of Two (2) printed pages. Please turn over.

QUESTION ONE (20 MARKS)

a) In the context of Kenya, explain any five (5) factors that can decrease the taxable capacity of a country. (10 marks)

a) With reference to Kenya, explain any five (5) strategies which the government could use to minimize tax evasion. (10 marks)

QUESTION TWO (15 MARKS)

b) Explain the meaning of the term ‘Taxable Capacity’? (2 marks)

c) In the context of the developing economies, explain any five (5) sources of pressure for changes in the tax system of your country (10 marks)

d) Define the following terms: (3 marks)
   i) Tax harmonization
   ii) Concentration ratio
   iii) Debt redemption

QUESTION THREE (15 MARKS)

a) Highlight any three (3) limitations of the Ability-to-Pay approach to tax equity. (3 marks)

b) With the aid of well-labeled diagram, explain the following Equal Sacrifice Rules of the Ability-to-Pay Approach to taxation: (6 marks)
   i) Equal absolute sacrifice
   ii) Equal proportional sacrifice

c) Explain any three (3) ways in which the government can extinguish debt. (6 marks)

QUESTION FOUR (15 MARKS)

a) O'Asante is a newly introduced brand of cosmetics produced used by ladies to enhance beauty. A 250ml-piece costs KES 2,000 and 1000 tons of it are sold per year. The government plans to introduce taxation of the product to cushion locally manufactured brands from its competition. You are given that the own-price elasticity of demand for this product is 0.1 and own-price elasticity of supply is 0.2 and that the new taxation will increase the product's price to KES 2,500 per 250ml. [*1kg = 1,000ml* and *1 ton = 1,000kg*]

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) What are the implications of the Ramsey rule and the inverse elasticity rules of optimal commodity taxation to equity in the distribution of tax burden (6 marks)

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