



MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS

2018/2019 ACADEMIC YEAR THIRD YEAR SECOND SEMESTER

SCHOOL OF BUSINESS AND ECONOMICS BACHELOR OF COMMERCE (FINANCE)

COURSE CODE: BCM 3226

**COURSE TITLE: PUBLIC FINANCE AND FISCAL
POLICY**

**DATE: 26TH APRIL, 2019
1030HRS**

TIME: 0830 -

INSTRUCTIONS TO CANDIDATES

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

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

QUESTION ONE

- a) Explain how the following can cause market failure **5 marks**
- i) Information asymmetry
 - ii) Adverse selection
 - iii) Moral hazards
 - iv) Market failure
 - v) Institutional rigidities
- b) The County Government of Turkana is intending to undertake the following two mutually exclusive projects (P_x and P_y). The table below gives their cash flows and initial costs. Use the Net Present Value (NPV) technique and the Internal Rate of Return (IRR) techniques to decide which project should be undertaken. (Use a required rate of return of 10 per cent) **10 marks**

Project	Yearly Cash Flows (USD Millions)					
	0	1	2	3	4	5
P_x	(15,450)	5,400	4,570	2,54	3,05	1,22
P_y	(18,612)	1,500	5,150	6,85	3,52	2,28

- c) Discuss 5 rationales for government intervention in private sector activities **10 marks**

QUESTION TWO

- a) Differentiate between positive externalities and negative externalities **2 marks**
- b) Use a well-labeled diagram to illustrate how the government can use tax to correct negative externalities **7 marks**
- c) Discuss any three critiques of Pigouvian Taxation as an approach to correcting negative externalities **6 marks**

QUESTION THREE

- a) What does it mean to say that public goods are non-excludable? **1 mark**
- b) Explain any 3 characteristics of public goods **6 marks**
- c) Explain any four differences between public goods and social goods **8 marks**

QUESTION FOUR

- a) Discuss any 3 sources of government revenues (citing merits and demerits) **9 marks**
- b) Explain 3 ways in which the government can extinguish debts and other monetary obligations **6 marks**

QUESTION FIVE

- a) State five constraints to the government expenditure through debt financing **10 marks**
- b) In your personal view, give any 5 measures which the Government of Kenya can take to contain the spiraling debt levels? **5 marks**

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