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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY  
UNIVERSITY EXAMINATION, 2019, 2020 ACADEMIC YEAR  
FOURTH YEAR, FIRST SEMESTER EXAMINATION  
FOR THE DEGREE OF BACHELOR OF SCIENCE  
(BUSINESS ADMINISTRATION)**

**KFI 404 - PUBLIC FINANCE**

Date: 14<sup>th</sup> December, 2020  
Time: 11.30am – 1.30pm

**INSTRUCTIONS TO CANDIDATES**

**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE (30 MARKS)**

- a) Explain using illustration and relevant examples the following economic concepts as used in public finance:
- i) Merit goods (3 Marks)
  - ii) Social goods (4 Marks)
  - iii) Free-rider problem (3 Marks)
  - iv) Fiscal externalities (3 Marks)
  - v) Zero base budgeting (2 Marks)
- b) ABC Ltd company faces marginal cost function by  $MC = 0.6Q$  and it faces a perfectly competitive price of Shs. 10 for its output.
- Required
- i) Calculate the company's competitive output level. (3 Marks)
  - ii) Given that the company is exerting a negative externality and its social marginal cost of production is estimated to be  $MC = 0.8q$ . If market price remains the same at Shs. 10, calculate the socially optimal level of production for ABC Ltd company. (3 Marks)
  - iii) If the government imposes an excise tax to bring about optimal level of production, calculate the level of tax to be imposed in such a case. (3 Marks)
  - iv) How much tax revenue would the government raise in this situation of ABC Ltd company. (3 Marks)
  - v) Highlight canons of a good tax system. (3 Marks)

**QUESTION TWO (20 MARKS)**

By help of a diagram explain the model of efficient allocation of resources in an economy.  
(20 Marks)

**QUESTION THREE (20 MARKS)**

Privatization can be defined as transfer of ownership of state assets from the public bodies to private enterprise or provision of services from public to private enterprise.” Discuss the case for and against the privatization in the economy, giving examples from your own country  
(20 Marks)

**QUESTION FOUR (20 MARKS)**

- a) Various political, social, and economic factors have contributed to the growth of public expenditure and the growth of the public sector. Explain briefly at least five of these factors.  
(10 Marks)
- b) Highlight the consequences of public expenditure growth in an economy.  
(10 Marks)

**QUESTION FIVE (20 MARKS)**

- a) Explain, giving relevant examples why public debt is incurred by a country.  
(10 Marks).
- b) Discuss the four public policy objectives (functions) of the government  
(10 Marks).