**GARISSA UNIVERSITY**

UNIVERSITY EXAMINATION 2020/2021 ACADEMIC YEAR **THREE SECOND** SEMESTER EXAMINATION

SCHOOL OF BUSINESS AND ECONOMICS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

**COURSE CODE: ECO 323**

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

**EXAMINATION DURATION: 2HOURS**

**DATE: TIME:**

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**INSTRUCTION TO CANDIDATES**

* The examination has **FIVE (5**) questions
* Question **ONE (1)** is **COMPULSORY**
* Choose any other **TWO (2**) questions from the remaining **FOUR (4)** questions
* Use sketch diagrams to illustrate your answers where necessary
* Do not carry mobile phones or any other written materials in the examination room
* Do not write on this paper

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

***MAIN EXAM***

**QUESTION ONE [30 marks]**

a). in the public sector the concept of monopoly is hugely practiced specially when some agents have the ability to affect price, the allocation of resources generally is inefficient. An extreme form of such market power is monopoly, with relevant examples, critically elucidate the conditions that bring about monopoly in your country. **[6 marks]**

b). Stabilization policy is a macroeconomic policies implemented by governments and central banks in an attempt to keep economic growth stable and less volatile. Policymakers in Kenya carefully monitor the business cycle, and make adjustments to these policies in an attempt to create stable and sustainable growth and reduce the damage caused by downturns. In line with these, elucidate the fundamental Instruments of stabilization policy in your country. **[6 marks]**

c). In Kenya, the economic growth will continue to be in distress unless the growing public debt is managed through minimal borrowing and fiscal regulations. The Kenya Institute for Public Policy Research and Analysis (Kippra) warned that the economy was already in the red and reeling under the pressure of a Sh5.3 trillion public debts, gradually reducing its ability to borrow more for development purposes. In reference to the above statement, discuss the main determinants of financial stability in Kenya. [**10 marks]**

d). When it is feasible to control level of pollution it seems preferable to apply input regulation. The reason is that the firm is likely to know better than the government in terms of best way of reducing the pollution. Most government relies heavily on input regulation since in most cases it is easier to monitor inputs than to measure level of pollution. Elaborate private solutions that are used to combat such mayhem. **[8 marks]**

**QUESTION TWO [20 marks]**

1. What is a free-rider problem **[1 mark]**
2. Describe key reasons as to why government should participate in economic activities

**[9 marks]**

1. Explain the assumptions of the principles of maximum social advantage **[8 marks]**
2. Comment the concept of public finance **[2 marks]**

**QUESTION THREE [20 marks]**

1. Discuss the fundamental differences between the private goods and public goods

**[8 marks)**

1. Explain the budgetary policy objectives of the government **[6 marks]**
2. Externalities occur in an economy when the production or consumption of a specific good or service impacts a third party that is not directly related to the production or consumption of that good or service. Explain the various Forms of Externalities

**[6 marks]**

**QUESTION FOUR [20 marks]**

1. Discuss the weaknesses of pigouvias tax scheme **[6 marks]**
2. Explain the requirements for a “good” tax structure in the public sector **[7 marks]**
3. Public loans in modern times are necessary to meet important situations, discuss why public debt is incurred **[7 marks]**

**QUESTION FIVE [20 marks]**

1. Discuss the major factors for the growth of public expenditure **[10 marks]**
2. Explain the key cannons/principles of budgeting process in the government sector.

**[10 marks]**