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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR**  
**FIRST YEAR, SECOND SEMESTER EXAMINATION**  
**FOR THE BACHELOR OF ECONOMICS AND FINANCE**

Date: 5<sup>th</sup> December, 2024  
Time: 11.30am – 1.30pm

**KEF 2200 - PUBLIC EXPENDITURE ECONOMICS**

**INSTRUCTIONS TO CANDIDATES**

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

**QUESTION ONE (30 MARKS)**

Country X, a developing nation, is facing several fiscal and economic challenges, including:

- A growing public debt that is crowding out private investment.
- Rising social expenditure needs, particularly in healthcare and social protection programs.
- Persistent externalities caused by industrial pollution in major urban centers.
- Weak budget formulation and execution processes leading to frequent fiscal deficits.
- Inter-governmental fiscal imbalances, with some regions underfunded while others accumulate budget surpluses.

The government of Country X is seeking recommendations to address these issues while maintaining fiscal sustainability and improving public service delivery

- a) Define externalities and explain their impact on social welfare in Country X. (5 marks)
- b) Suggest two policy measures to mitigate the industrial pollution affecting urban centers in Country X. (5 marks)
- c) Analyze the trade-off between equity and efficiency in funding social protection programs in Country X. (5 marks)
- d) Evaluate how social expenditure can be optimized to address rising healthcare needs without compromising fiscal sustainability. (5 marks)
- e) Recommend mechanisms to achieve equitable and efficient resource allocation among regions. (5 marks)
- f) Explain the rationale for state intervention in the economy, particularly in addressing market failures in Country X. (5 marks)

## **QUESTION TWO (20 MARKS)**

- a) Explain how free market may not be able to allocate resources efficiently in market for museum visits and air travel. (6 marks)
- b) Examine the assertion that the price mechanism is the best way to allocate resources. (4 marks)
- c) Discuss the challenges faced in the budgeting process in Kenya (6 marks)
- e) Briefly discuss any four ways of measuring the size of the public sector (4 marks)

## **QUESTION THREE (20 MARKS)**

- a) Distinguish between a public good and private good and explain under which of these classifications public libraries should be placed. (5 marks)
- b) Discuss if the existence of an externality implies that the good should necessarily be provided by the government. (5 marks)
- c) Discuss the marginal conditions for optimal resource allocation (5 marks)
- d) Differentiate between the benefit cost ratio and the net benefit cost ratio project evaluation methods (5 marks)

## **QUESTION FOUR (20 MARKS)**

- a) Explain the term "labor mobility" and describe two measures that a government could introduce to improve it. (6 marks)
- b) Discuss any five types of budgets (4 marks)
- c) Discuss the importance of public expenditure economics (6 marks)
- d) Discuss, using relevant diagrams and illustrations, any five responses to externalities (4 marks)

## **QUESTION FIVE (20 MARKS)**

- a) Discuss any five rationale for the establishment of public enterprises in a country. (6 marks)
- b) State and explain any five challenges faced by public enterprises in Kenya (4 marks)
- c) What is pareto inefficiency? Give examples (6 marks)
- d) Discuss the canons of public expenditure (4 marks)