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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
FOURTH YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)
SPECIAL EXAMINATION

13th August 2024
8.30 - 10.30am

KFI 404 PUBLIC FINANCE

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Using relevant examples differentiate between the following pair of terms:
- i) Congestible and impure goods. (2 marks)
 - ii) Exhaustive expenditures and transfer payments. (2 marks)
 - iii) Direct and indirect benefits. (2 marks)
 - iv) Revenue and capital budget. (2 marks)
 - v) Non-rivalness and non-excludability. (2 marks)
- b) The goal of public finance is to understand the proper role of the government in the economy. Why should the government intervene in the economy? (8marks)
- c) A certain firm has the inverse demand function of $P = 60 - 0.2Q$ and marginal cost of $MC = 2Q$. Suppose the marginal social cost, $MSC = 2.5Q$.

REQUIRED:

- i) Competitive equilibrium price and quantity. (4marks)
- ii) Socially efficient equilibrium, price and quantity. (5marks)
- iii) Corrective tax per unit. (3marks)

QUESTION TWO (20 MARKS)

- a) Giving relevant examples, explain why public debt is incurred. (10marks)
- b) Using illustrations, discuss the optimal provision of social goods and private goods. (10marks)

QUESTION THREE (20 MARKS)

- a) Discuss the main limitations of Cost Benefit Analysis as a principle basis of appraising public projects. (10 marks)
- b) Externalities can either be negative or positive. With the help of well labeled diagrams demonstrate the consequences of each one of them. (10 marks)

QUESTION FOUR (20 MARKS)

The Private Marginal Benefit (PMB) for commodity X is given by $10 - X$, where X is the number of units consumed. The Private Marginal Cost (PMC) of producing X is constant at KShs. 5. For each unit of X produced an external cost of KShs. 2 is imposed on members of society.

REQUIRED:

- i) In absence of any government intervention, how much of X is produced? (3 marks)
- ii) What is the efficient level of production for X? (5 marks)
- iii) What is the gain to society involved in moving from the inefficient to efficient level of production? (5 marks)
- iv) Suggest a pigouvian tax that would lead to efficient level of production. (3 marks)
- v) How much revenue would the tax raise? (4 marks)

QUESTION FIVE (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 some of the major factors. (10 marks)
- b) Argue the case for and against privatization in an economy. (10 marks)