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**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 AND FISCAL POLICY**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 06/04/2021 TIME: 12.00-2.00 PM**

**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 answer whenever necessary**
* **Do not carry mobile phones or any other written materials in examination room**
* **Do not write on this paper**

**This paper consists of TWO (2) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Recently the international Monetary Fund (IMF) team and the Kenyan authorities reached staff-level agreement on a 38-month program to help the next phase of the country’s COVID-19 response and a strong multi-year effort to stabilize and begin reducing debt levels relative to GDP. Elucidate possible measures that the country should put in place to comply with those agreements for economic stability **[8 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 **[8 marks]**
3. Elaborate the role of parliament in the budgetary process in Kenya **[8 marks]**
4. Explain in details the characteristics of pure public good **[4 marks]**
5. Explain the terms excludability and non-rival consumption **[2 marks]**

**QUESTION TWO**

1. Explain the four (4) canons for the growth of public expenditure **[6 marks]**
2. Describe key reasons as to why government should participate in economic activities

 **[8 marks]**

1. Explain the assumptions of the principles of maximum social advantage **[6 marks]**

**QUESTION THREE**

1. Discuss the fundamental differences between the private goods and public goods **[8 marks]**
2. Explain the justification of government intervention in the goods market **[6 marks]**
3. Describe three key conditions that bring about monopoly **[6 marks]**

**QUESTION FOUR**

1. Explain the various private and market mechanism for solving externality problems.**[4 marks]**
2. Discuss the weaknesses of pigouvias tax scheme **[6 marks]**
3. Explain the requirements for a “good” tax structure in the public sector **[4 marks]**
4. Public loans in modern times are necessary to meet important situations, discuss why public debt is incurred **[6 marks]**

**QUESTION FIVE**

1. Discuss the three (3) major factors that affect the level of production and employment to accelerate economic recovery of a country **[6 marks]**
2. Elucidate two (2) key types of budget in the public sector **[4 marks]**
3. Explain the key cannons/principles of budgeting process in the government sector. **[10 marks]**