



(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2021 / 2022 ACADEMIC YEAR

THIRD YEAR ~~SECOND~~ SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCF326/BCF322

COURSE TITLE: PUBLIC FINANCE

DATE: 1ST SEPTEMBER, 2022 TIME: 9.00AM - 11.00AM

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question **one** carries **30** marks and each of the other two questions carry **20** marks each.

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 6 Printed Pages. Please Turn Over.

QUESTION ONE

a) Discuss TWO justifications of Taxation by Governments, citing EXTERNALITIES and the FREE-RIDER PROBLEM. [10 marks]

b) Calculate the tax payable p.a for an individual with an annual salary taxable employment income of KES 1,980,000.

With effect from 1st January, 2021

Tax Bands	Annual	Monthly
On the first	Shs. 288,000	Shs. 24,000
On the next	Shs. 100,000	Shs. 8,333
On all income in excess of	Shs. 388,000	Shs. 32,333

Personal Relief of Kshs. 28,800 per annum (Kshs. 2,400 per month). [10 marks]

c)

The following is an extract from the Business Daily Newspaper; “Consumer prices in Kenya rose 4.8 percent year-on-year in January of 2018, after a 4.5 percent gain in the previous month. Prices advanced at a faster pace after easing for five consecutive months, mostly due to food and housing and utilities”.

Required;

- i. Assess the relevance fiscal policies by the government to correct the above. [10 marks]
- ii. Justify the importance of public finance to a developing country.. [10 marks]

QUESTION TWO.

a)

“In the FY 2021/22 the fiscal deficit (excluding grants), is projected at Ksh 582.5 billion (equivalent to 7.0 percent of GDP) against the estimated fiscal deficit of Ksh 716.9 billion (9.6 percent of GDP) in the FY 2020/21. Including grants, the fiscal deficit is projected at Ksh 523.7 billion (6.3 percent of GDP) in the FY 2021/22 against the estimated fiscal deficit of Ksh 665.4 billion (8.9 percent of GDP) in the FY 2020/21. Excluding expenditures related to the Standard Gauge Railway (SGR) which is a one off expenditure, the deficit for the FY 2021/22 amounts to Ksh 469.6 billion or 5.7 percent of GDP”.

Required;

Discuss FIVE ways in which the Government can finance the Fiscal deficit (10 marks)

- b) Evaluate the reasons for the involvement of the government in the control of an economic system (10 marks).

QUESTION THREE.

The Constitution of Kenya 2010 completely changed the way public budgets were done in Kenya. The constitution introduced a new legal framework and institutions to ensure transparency, accountability and public participation in management of public finances.

Required;

- a. What is the role and importance of the Office Of the controller of Budgeting, as an institution of budgetary administration in Kenya. [10 marks]
- b. Discuss the budget process states as prescribed by Public Financial Management Act. [10 marks]

QUESTION FOUR

- a) In 2016 **Kenya public debt** was 37,087 million dollars, has increased 4,044 million since 2015. This amount means that the debt in 2016 reached 52.57% of Kenya GDP, a 0.93 percentage point rise from 2015, when it was 51.64% of GDP. If we check the tables we can see the evolution of Kenya debt. It has risen since 2006 in global debt terms, when it was 11,357 million dollars and also in terms of GDP percentage, when it amounted to 43.98%. According to the last data point published, **Kenya per capita debt** in 2016 was 765 dollars per inhabitant. In 2015 it was 700 dollars, afterwards rising by 65 dollars, and if we again check 2006 we can see that then the debt per person was 327 dollars.

Required; In relation to the Kenyan public debt movement, Discuss three best applicable of Principles of Public Debt Management that will salvage the situation at hand [6marks]

- b) Explain TWO ways in which government fill the budget deficit in running their programmes. [10 marks]
- c) Explain two justifications of whether education in Kenya is a complete public good [4 marks]

QUESTION FIVE

- a) Discuss the Classical theories of public Finance and their assumption [10 marks]
- b) Evaluate the principle of “ Maximum Social Advantage “ [10 marks]