



**COLLEGE OF BUSINESS, PEACE, LEADERSHIP &
GOVERNANCE**

COURSE CODE AND TITLE: MPM 220- Public Finance

END OF FIRST SEMESTER EXAMINATION

NOVEMBER 2018

LECTURER: Mr L. NGENDAKUMANA

DURATION: 3 HOURS

INSTRUCTIONS

Answer **any five questions**.

Total possible mark is 100

Start **each** question on a new page in your answer booklet.

The marks allocated to **each** question are shown at the end of the section.

Show **all your workings**.

Credit will be awarded for logical, systematic and neat presentations.

Question One

Briefly explain the following concepts used in public finance

- a. Social convention [2]
- b. Corrective tax [3]
- c. Pecuniary externality [3]
- d. Property rights [3]
- e. Effluent fee [3]
- f. External economy [3]
- g. Technical externality [3]

Question Two

- a. Use well labelled diagram to explain the work of a free market and show how taxes lead to market failure. [10]
- b. Use well labelled diagram to explain the work of a free market and show how subsidies lead to market failure. [10]

Question Three

- a. State and explain any 6 requirements of a good tax structure, which may be used as criteria to appraise the quality of a tax system and briefly explain each one of them. [10]
- b. "Equity principle of taxation" is said to be a basic criterion for tax- structure design. Explain this statement basing your argument to the objective of equity. [5]
- c. In popular discussions, government revenue can be collected from non- tax sources. State and briefly explain 5 components of non- tax sources of government revenue [5]

Question Four

- a. After defining the concept of public budget, explain its roles [10]
- b. Outline and explain the effects government budget on the public services. [10]

Question Five

- (a) Using 4 clear examples of impure public goods, discuss the characteristics of each one of them [8]
- (b) State any 4 examples of pure public goods and provide solid justification for your choices [6]

- (c) Using the characteristics of pure public goods explain why the private market fails to provide such goods [6]

Question Six

- a. After defining the concept of market failure and outlining its various causes, explain why there is need for government intervention as far as that problem is concerned. [10]
- b. Use 3 clear examples to define and distinguish between pecuniary and technical externalities [10]

Question Seven

- a. State and explain the concept income inequality and provide its measurements. [10]
- b. What are the causes of such income inequality (a) and what policies can a government implement to overcome it? [10]

End of Paper