



**FACULTY OF MANAGEMENT AND ADMINISTRATION**

**MPM 206: PUBLIC FINANCE**

**END OF FIRST SEMESTER EXAMINATIONS**

**APRIL/MAY 2017**

**LECTURER: G. MANDEWO**

**DURATION: (3 HRS)**

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***INSTRUCTIONS***

Answer Question number 1 and ANY other three 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 question.

Show all your workings.

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



1. (a) Write brief notes on the following

- (i) Pure public good [4 Marks]
- (ii) Congestible public goods [4 Marks]
- (iii) Arrow's impossibility theorem [4 Marks]
- (iv) Logrolling [4 Marks]
- (v) Median Voter Theorem [4 Marks]

(b) Explain three instances where an externality may arise [4 Marks]

(c) Discuss public policies that may be put in place in order to redress externalities [4 Marks]

(d) Critically discuss the use of subsidies to internalise a positive externality [4 Marks]

(e) In what way does the Coase Theorem assist the problem of externalities? [4 Marks]

(f) How does the international community deal with international externalities? [4 Marks]

2. Demonstrate a clear understanding of the following taxes

- (a) carbon Tax [4 Marks]
- (b) Stamp tax [4 Marks]
- (c) Import Duty [4 Marks]
- (d) income tax [4 Marks]
- (e) corporate tax [4 Marks]

3. (a) What are the determinants of how much taxes should be affected? [4 Marks]

(b) What is the difference between marginal tax rate and average tax rate? [4 Marks]

(c) Make a clear distinction between tax evasion and tax avoidance. [4 Marks]

(d) Suggest practical ways to reduce tax evasion [4 Marks]

(e) What are some of the alternative methods of raising government revenues? [4 Marks]

4. The following list defines the problems of health insurance

- (a) Third Party payments [4 Marks]
- (b) Adverse selection [4 Marks]
- (c) Asymmetric information [4 Marks]
- (d) Moral Hazard [4 Marks]



For each of the above show how this results in inefficiencies and how it can be resolved.

5. Critically discuss the use of Cost-Benefit Analysis as a method of evaluating government projects [4 Marks]
6. (a) What are the reasons why government insist on social security programs/schemes [4 Marks]  
(b) Discuss methods that are used to compute retirement benefits [4 Marks]
7. Write brief notes on the following
  - (b) Lindhal Equilibrium [4 Marks]
  - (c) Pure public good [4 Marks]
  - (d) Arrow's impossibility theorem [4 Marks]
  - (e) Logrolling [4 Marks]
  - (f) Poverty Datum Line [4 Marks]
8. (a) If free markets are efficient, what is the rationale for government existence? [8 Marks]  
(b) Discuss the case for tax incidence. [Hint: you may use diagrams to illustrate concept. [4 Marks]  
(c) Both a tax and a subsidy result in a deadweight loss. Demonstrate [4 Marks].  
(d) What are the problems of the free market? [4 Marks]

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